SOME ASPECTS OF THE INDIAN WAR ECONOMY

By

Dr. M. S. NATARAJAN, M.A., Ph.D.,

Director,

DIWANCHAND POLITICAL INFORMATION BUREAU,

and Editor of the

JOURNAL OF THE BUREAU,

Author of

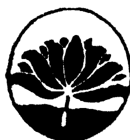
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INTRODUCTION

A year and more have passed since the second world war came to an end. The war-time economic conditions are, however, still persisting and from the look of things it appears that they will continue for at least another year. Monetary inflation in India reached its maximum expansion by the year 1944-45. Although there have been additions to currency since then, they are not a patch on what took place earlier. Unfortunately, however, the inflationary spiral having gained momentum has been gaily soaring high. Rise in prices has gone almost from month to month even from September last year. The acute food and cloth situation in the country has made matters worse. While stark naked famine has not yet stalked all over the land, its shadow has been looming dangerously here since the second quarter of this year. India's efforts to obtain food by means of imports have been only partially successful. The allocations by the International Emergency Food Council have been meagre and even that meagre quantity has not come into the country, thanks to labour troubles and other upheavals in the United States of America, Argentine, Siam, Indonesia, etc. We were allocated for the second quarter of the year 146,000 tons as against the demand for 500,000 tons and, for the second half of the year, the allocation was 270,000 tons as against a demand for 700,000 tons. Against a minimum import demand of 4,000,000 tons, India has till now received only 1,250,000 tons, of which rice is only 173,000 tons. The pity of the whole thing is that in the immediate future there is no comfort or solace to any appreciable extent by way of imports. So far as internal production is concerned, India has had the calamity during the year of a major failure of both *kharif* and *rabi* crops. Draught has been responsible for a loss of rice and millets in Southern and Central India amounting to 3,000,000 tons and of *rabi* crops in Northern

India to the tune of 4,000,000 tons. Such a misfortune this country has experienced, probably, only a couple of times in fifty years.

Rightly has our Food Minister, Dr. Rajendra Prasad, emphasised that, under the circumstances, there are only three ways of facing this calamity. The first is to increase the production of crops, which could be grown between the major harvests, the second is to secure assistance from abroad and the third is to distribute the incidence of shortage as evenly and equitably as possible. To some extent, the Government—both Central as well as Provincial—have taken action with regard to all the three steps, but real relief could be experienced by the country only about the middle of 1947, assuming that Providence is merciful and does not propose to submit this country to more ordeals.

The hydra-headed inflationary tendencies could be checked and the maximum production and equitable distribution of such necessities of existence as foodgrains and cloth, salt, kerosene, etc., could be ensured by arriving at a national price and by unfalteringly sticking to it. Otherwise the miseries of agricultural, industrial as well as majority of the salaried classes would continue in their full intensity. The speeding up of industrial production by subsidies and other fiscal methods would have to be adopted in a determined manner. It is estimated that even as high a subsidy as Rs. 5 per maund of foodgrains will cost the country about Rs. 81 crores per annum. The cost of subsidies of fertilizers by way of free distribution of a million tons to actual agriculturists may at the most cost about Rs. 16 crores and various subsidies of purchases of machines required for textiles, sugar, etc., would come to about Rs. 50 crores. In all probability, the entire amount of subsidies of the essential commodities for bare existence would cost the country about Rs. 200 crores per annum. This cannot be considered excessive, when there is such a dearth of food and cloth and other articles for bare existence. The Government of India could also safely rely on the Indian market to put this amount at their disposal.

It is not enough to follow a negative policy in regard to our monetary situation. Cancellation of currency to the extent it is possible has to be taken up immediately. While all the important and other trade controls cannot be done away with for another year or so, an even more liberal import policy than the one pursued now, especially in regard to those commodities, which this country does not produce or produces inadequately, has to be immediately adopted, so that the starved demands of the consuming masses are met and the surplus monetary resources in their hands drained away.

The industries of the country have been faced with a critical situation on account of the wear and tear of the machinery during all the strenuous years of the war and difficulties in getting spare part and fresh plants. The end of the war has not been any betterment because countries, which could supply such goods, are not many now; secondly, the great pre-occupation in their own countries of industrialists to speed up their production and thirdly lack of shipping space as well as strikes in the labour world in India and elsewhere have contributed their full quota to the tribulations of our industrialists. This is likely to continue at least for another year if not two.

The future of trade and industry in India depends upon the policy that would be pursued by Government. Any lining up of India with the trade policies laid down by such advanced countries as the United States of America or the United Kingdom would definitely not suit us. It is something that we have it now laid down by Mr. Bhabha, Minister for Commerce, as the tariff policy of the Government, that there would be no longer the continuance of the half-hearted, hesitating and halting policy of discriminating protection. The present Tariff Board has submitted 14 reports and the Minister of Commerce has assured the public that these would be dealt with soon. The country, however, requires urgently the formulation of a definite industrial and economic planning for the whole land with a clear-cut, long-term tariff policy. Our industries could

legitimately expect help and assistance by way of protection, subsidies and such other methods as are available. This depends on our having from now on a strong Central Government representative of all the people of the land and armed with adequate powers.

Neither short-term nor long-term industrial or tariff policy could be envisaged without the settlement of the question of sterling balances. A settlement is very necessary and that in the near future so that capital goods could be procured from foreign countries. Our share in the Empire Dollar Pool is unenviable and methods must be found by the Indian Government for scrapping the present Dollar Pool arrangement, which has not worked, is not working and cannot work for the advantage of this country. If it is found difficult in the immediate future either to settle the question of sterling balances or to obtain the full Dollar requirements of India by other means, the Indian Government should approach the Government of the United States for a loan in order to help the Indian industrialists to import machinery and other capital goods from the States.

The end of the war has again brought the problem of the rupee to the fore. A controversy has once again arisen for the last few months and it has been accentuated by the query of the Managing Director of the International Monetary Fund concerning the par value of Indian rupee. The concensus of informed opinion of the country is that the present exchange ratio of 18d. to the rupee should be maintained. If the rupee is devalued, the cost of India's large-scale industrial programme would go up steeply. Situated as we are, we have to depend on foreign countries and probably to a very considerable extent on the United Kingdom for the importation of plant and machinery. The retaining of sterling balances in England by Great Britain gives her a favourable position in this regard and India can liquidate it to her advantage, to some extent at any rate, only by importation of the machinery from there. The devaluation of the rupee, on the other hand, would result

in increased foreign competition and our industries would be hard put to compete with the imported goods whose prices are bound to be reduced in the near future. In any case, when the whole economic situation in this country as well as elsewhere is in such a fluid state, it is not wise to tamper with the exchange rate just at the present time.

In the political world, a great change has taken place by the installation of the Interim Government. For the first time in the recent history of the country, a Government has come into existence at the Centre representing the major parties and communities. This Government is composed of eminent public men. If they would work as a team, overriding party, provincial and communal considerations, the economic future of the country is assured. While the pangs of transition from the war-time to the peace-time economy have to be borne, in common with the rest of the world, a truly representative and strong Government at the centre could bring to fruition, even within a decade, a mighty India industrially and economically forging ahead and occupying her rightful place among the comity of nations.

Perhaps, a word is necessary for the somewhat delayed publication of this work. It is difficult to apportion blame in these days of labour troubles and insecure group existence. This book actually left the author's hands by the end of August 1945 but in India the incidence of one phenomena, strangely, falls on altogether impredictable shoulders!

17th October, 1946 M. S. NATARAJAN

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CHAPTER ONE

INDIAN ON THE EVE OF WAR

Political Background: It is with the economic consequences and problems arising out of the World War II that we are concerned in this book. Politics and economics being so inter-mingled, particularly in a subject country, we have to refer, however briefly, to the political background as well. Politically, India is a subject country, her constitutional development being much below that of the Egyptian Government. Egypt itself, it may be remembered, has a inferior status when compared to full-fledged Dominions such as Canada or Australia. The Central Government in India are not responsible to the Legislatures. With all deference to constitutional pandits, the role of the Indian Central Legislatures is just that of an advisory body to the Government.

The Government of India, obviously under instructions from His Majesty's Government in the United Kingdom, declared war on the Axis countries, i.e , Germany and Italy, in September 1939 without saying so much as "by your leave" to the Central Indian Legislatures. Constitutionally, they were not bound to do so, but one however, thought that out of sheer policy they could have at least put up a show of consulting the public opinion. While it is quite possible that a free and independent India or, for the matter of that, even India with Dominion Status would have freely and voluntarily allied herself with democratic powers against the totalitarian Fascist menace, the leaders of the Indian public opinion felt that they have been wantonly slighted and that the British Government had taken undue advantage of India's inferior and subject position in the comity of nations. The principal Indian parties, the Congress and the Muslim League, were and are anti-axis and anti-Fascist parties and yet they have

felt all along that they should not offer their whole-hearted co-operation on account of the treatment accorded to India by the British Government. The Congress Ministries in eight provinces resigned as a result and popular democratic governments ceased to exist in all of them. The Congress Assembly Party also withdrew its participation from the Central Legislature and rejoined as a party only during the Budget Session of 1945.

No modern war is a thing to be lightly entered into. The inter-dependence of the countries, the phenomenal advances made in transportation, communication and scientific warfare make even a small outbreak between two South American countries felt over a wide area. The British Government and, under their instructions, their subordinate Government in India both ignored this fundamental factor and chose to embark on this war without taking the Indian leaders into their confidence or gaining the goodwill of the country by wise measures of constitutional advance. If only a national Government in India, as the Congress demanded in 1940 for its whole-hearted co-operation in the war and which it has been demanding ever since at every open forum, had been formed, the political and economic history of this country during the war years would have been a totally different one. The Government in all measures, which they undertook for the prosecution of the war, had to reckon with passive hostility of the major Indian political parties and, to that extent, were always at a handicap even in regard to some of their well thought-out and efficiently worked-out plans and schemes for the effective prosecution of the war. India was made to embark on the war with almost a sullen, undoubtedly bitter and definitely passive non-co-operation from the majority of the politically minded people of the country.

We have seen that politically India was not prepared for the war. We shall now analyse whether she was economically prepared to meet the onslaughts and ravages of the modern war.

India's place in the Economic Map: Industrially, India occupied, on the eve of the war, the eighth place among the nations of the world. Her production of mica was second only to that of Russia She produced coal at least enough for her needs. Her production of pig-iron and steel was sufficient to meet her effective economic demands. She all along had the monopoly of the jute supply in the world. As regards cotton, hers was the second place among the world's producers. She was the largest producer of lac and practically had a monopoly of it. India was also one of the greatest sugar producing countries. In regard to production of oilseeds, India occupied a very high place. One-fourth of world's supply of tea was also produced by this country. More than 25 per cent of the world supply of rice was grown in India. India was the third largest producer of the world so far as raw tobacco and wheat were concerned. One-third of the world's cattle, on the eve of the war, was found in India and she led the world in the production of 20 million cattle hides annually and that in addition to enormous quantities of skins.

Lag in Agricultural Progress: The impressive list given, on examination, would be found to be a very unsatisfactory method of appraisal of the country's progress, especially when we take into consideration the huge area of the country, her resources and population of 380 million according to the latest census of 1941. As agriculture has been and is the main occupation of the people for ages, due attention must be paid to it first. Following are the figures of agricultural production for the years 1920-21, 1928-29 and 1938-39, for British India excluding Burma:—

AGRICULTURAL PRODUCTION IN INDIA

(A) British India (*excluding* Burma).

Description.		Agricultural Year 1920-21	1928-29	1938-39
I. General—				
(1) Net Area Sown ...	(000 acres)	197,279	210,631	209,400
(2) Cultivable Waste* ...	„	146,429	139,361	142,482
II. Area and Yield of Principal Crops—				
(1) Rice—				
Area	(000 acres)	67,732	67,421	68,844
Yield	(000 tons)	23,379	26,215	22,612
Yield per acre ...	(lbs.)	773	871	730
(2) Wheat—				
Area	(000 acres)	21,795	24,796	26,769
Yield	(000 tons)	6,020	7,263	7,985
Yield per acre ...	(lbs.)	619	656	668
(3) Other Cereals—Jowar, Bajra and Maize—				
Area	(000 acres)	39,946	38,756	39,316
Yield	(000 tons)	11,592	8,791	7,721
Yield per acre ...	(lbs.)	650	508	440
(4) Linseed—				
Area	(000 acres)	3,779	2,627	3,118
Yield	(000 tons)	364	304	378
Yield per acre ...	(lbs.)	216	259	272
(5) Groundnuts—				
Area	(000 acres)	1,824	4,679	5,507
Yield	(000 tons in shell)	907	2,771	2,274
Yield per acre ...	(lbs.)	1,114	1,327	925
(6) Other oilseeds—				
Area	(000 acres)	9,324	10,733	9,235
Yield	(000 tons)	1,268	1,310	1,279
Yield per acre ...	(lbs.)	305	273	310
(7) Cotton—				
Area	(000 acres)	16,150	16,188	13,895
Yield	(000 bales†)	2,837	3,755	3,259
Yield per acre ...	(lbs.)	70	93	94
(8) Jute—				
Area	(000 acres)	1,505	3,381	3,115
Yield	(000 bales†)	3,974	10,258	9,648
Yield per acre ...	(lbs.)	1,056	1,214	1,239
(9) Tea—				
Area	(000 acres)	652	704	739
Yield	(000 lbs.)	321,806	372,788	411,595
Yield per acre ...	(lbs.)	494	530	557
(10) Coffee—				
Area	(000 cres)	57	75	82
Yield	(000 lbs.)	12,136	12,534	20,609
Yield per acre ...	(lbs.)	213	167	251
(11) Rubber—				
Area	(000 acres)	19	19	18
Yield	(000 lbs.)	1,872	3,377	4,183
Yield per acre ...	(lbs.)	99	178	232
(12) Sugarcane—				
Area	(00 acres)	2,543	2,497	2,988
Yield‡	(000 tons)	2,492	2,599	3,148
Yield per acre ...	(lbs.)	2,195	2,335	2,360
II. Area under Improved Crops—				
(1) Rice	(000 acres)	130	633	4,362
(2) Wheat	„	1,805	4,125	7,803
(3) Cotton	„	1,116	3,829	6,156
(4) Jute	„	57	1,144	1,588
(5) Sugarcane	„	10	494	2,093
All Crops	„	3,296	11,298	23,819

*Cultivable Waste and Current Fallows.
†1 bale—400 lbs.
‡Relates to raw sugar (gur).

A glance through the figures would show, so far as British India is concerned, that the net area sown in the year 1938-39 had increased only by six per cent. The production of rice and other cereals (jowar, bajra and maize) were all less than that for the year 1920-21. The production of groundnuts, cotton, jute, tea, coffee, rubber and sugarcane, however, had increased in 1938-39 over 1920-21.

The extension of the total cultivated area has been very slow. In fact the net area was increased only by about 14 per cent between the years 1901 and 1930. Between 1900 and 1934, the increase in population amounted to 21 per cent while extension of area under food crops rose only by 9 per cent. There was an increase of 10.6 per cent in India's population between 1921 and 1931 and 15 per cent in the following decade, i.e., 1931-41. The increase in yield of rice and wheat amounted to only 2.3 per cent in 1931 over the production in 1921 and just by an additional 1 per cent only in the next decade. The acreage between 1921 and 1931 increased by 5.2 per cent and the increase in the following decade, i e., 1931-41, amounted to only 2.9 per cent. The unsatisfactory character of the growth of production could be explained to some extent by the lack of adequate irrigational facilities. In 1938-39, the area irrigated out of the total sown area in British India was only 26 per cent and in the Indian States it was only 15 per cent of the total sown area. The total area under irrigation increased by only about 6 million acres between 1920-21 and 1938-39 in British India and by about 2.7 millions in the Indian States.

Taking into consideration the great growth of population in the country, the agricultural production on the whole has nowhere kept pace and the production in 1938-39 has, in fact, even slightly deteriorated over the 1920-21 level. That is the picture on the eve of the war.*

*Sir Manilal B. Nanavati calculated in the "Bombay Co-operative" Quarterly of July 1943 that the index of population of British India (excluding Burma) moved up to 138 in 1939-40, while the index of land under cultivation rose up to only 119 and the area under foodgrains could be put only at 114, taking 1891 as the basic year representing 100.

India occupies a very strong position in regard to her cattle wealth so far as numbers are concerned. It may be safely said that half the cattle population of the country is to be construed as a serious liability. But for the doctrine of *ahiṃsa* prevalent and practised to some extent at least in the country more than half the number of the existing cattle would have been sent to slaughter houses or destroyed otherwise. No other civilised country of the world would have tolerated the existence of such a number of useless and inefficient cattle. Animal husbandry has never been practised as a science in India by the large masses of the people and that coupled with the *ahimsa* doctrine has proved one of the misfortunes of our countryside.

Industrial Position on the Eve of the War: The following figures give an indication of the development of Indian industries between the years 1931-32 and 1938-39:—

Growth of Indian Industries between 1931-32 and 1938-39

	Production in 1931-32 (1)	Production in 1938-39 (2)	% of increase of (2) over (1)
Cotton spun and woven:			
Yarn (million lbs.)	966	1,303	34·9
Woven goods (mill. yards)	2,989	4,269	42·8
Jute manufactures (000 tons)	903*	1,221	35·2
Paper (000 Cwts.)	814	1,184	45·5
Petrol (million Gall.)	17·24†	19·8	14·8
Kerosene (mill. Gall.)	33·01†	38·7	17·2
Iron and Steel:			
Pig iron (000 tons)	1,070	1,576	47·3
Steel ingots (000 tons)	602	977	62·3
Finished steel (000 tons)	450	736	61·3
Heavy Chemicals:			
Sul. acid (000 Cwts.)	484*	512	5·8
Am. sulphate (000 tons)	8·00*	14·86	68·3
Other chemicals (000 tons)	112·0*	242·2	116·3
Cement (000 tons)	583	1,000	71·5
Sugar (000 tons)	478	766	60.3
Distilleries and Breweries (R. Sp. D. Sp. 000 L. P. Gall.)	1,930	2,656	37·6
Matches (million gross boxes)	18·84*	21·06	11·8
Coal (000 tons)	22,714	24,815	9·2

*For 1932-33.
†For 1935-36.

There has been an increase in industrial production during the pre-war years and those industries, which showed the maximum increase, are textiles, paper, iron and steel, heavy chemicals, cement, sugar and distilleries. The unweighted Arithmetic mean of the growth of these industries amounts to 42.3 per cent.

The number of factories rose from 2,936 in 1914 to 11,630 in 1939 and the number of workers employed in them increased during the same period from 9,50,000 to 17,50,000. The number of Indian joint-stock companies operating in British India and Indian States in 1914-15 was 2,545 and it was 11,114 in 1938-39. The paid-up capital of these companies rose during the period from Rs. 80,78 lakhs to Rs. 290,39 lakhs.

India's Trade on the eve of the War: The following figures indicate the salient features of our foreign trade in 1938-39:—

Imports into British India during 1938-39
(In thousands of Rupees)

Cotton and cotton goods.	22.66,20
Grain, pulse and flour.	13,76,46
Machinery and millwork.	19,04,78
Artificial silk.	2,23,62
Dyeing and tanning substances.	3.14,16
Instruments, apparatus and appliances	5,85,31
Wool, raw and manufactured.	2,81,90
Paper and pasteboard.	3,22 93
Wood and timber.	2,86,69
Provisions and oilman's stores.	2,48,41
Spices.	2,63,43
Drugs and medicines.	2 20,53
Hardware.	2,57,27
Liquors.	2,10,83
Silk, raw and manufactured.	1,94,15
Rubber manufactures.	1.40,56
Tea chests.	90,30

Tobacco.	1,04,55
Paints and painters' materials.	88,99
Fruits and vegetables.	1,34,43
Glass and glassware.	1,25,12
Manures.	1,05,17
Building and engineering materials.	62,18
Belting for machinery	49,11
Stationery.	67,04
Toilet requisites.	66,06
Arms, ammunition and military stores.	50,17
Bobbins.	37,92
Salt.	37,80
Books, printed, etc.	58,92
Haberdashery and millinery	46,52
Sugar.	45,58
Matches	23,52
Apparel.	47,50
Earthenware and porcelain.	39,19
Precious stones and pearls, unset.	1,15,03
Gums and resins.	30,13
Clocks and watches and parts.	42,63
Tallow and stearine.	32,10
Cutlery.	25,64
Toys and requisities for games	37,30
Umbrellas and fittings.	14.87
Soap.	22,44
Total value of imports	152,36,71

Exports from British India during 1938-39
(In thousands of Rupees)

Jute, raw	13,39,67
Jute manufactures	26,26,11
Cotton, raw and waste	24,66,65
Cotton manufactures	7,11,79
Tea	23,29,05
Seeds	15,09,22

Leather	5,27,58
Grain, pulse and flour	7,74,12
Hides and skins, raw	3,84,67
Tobacco	2,75,63
Fruits and vegetables	2,26,86
Wool, raw and manufactured	3,84,95
Lac	1,26,65
Rubber, raw	71,58
Rubber manufactures	3,70
Oilcakes	3,01,20
Coir	96,01
Hemp, raw	71,98
Spices	78,66
Provisions and oilman's stores	59,32
Building and engineering materials other than of iron, steel or wood	14,75
Fish (excluding canned fish)	69,29
Dyeing and tanning substances	59,11
Boots and shoes	21,69
Manures	37,22
Paraffin wax	36,25
Drugs and medicines	27,83
Instruments, apparatus, etc.	24,36
Paper and pasteboard	10,19
Sugar	24,18
Wood and timber	23,66
Gums and resins	23,45
Saltpetre	10,89
Coffee	75,11
Bristles	26,32
Paints and painters' materials	13,01
Apparel	12,62
Toys and requisites for games, etc.	15,76
Cordage and rope	8,12
Bones for manufacturing purposes	23,71
Total value of Exports	162,79,16

Our exports were mainly raw materials, the only notable exception being jute manufactures. The chief imports on the other hand were mainly manufactured goods. The foreign trade justly reflects the economic development of the country. India being largely an agricultural country, in spite of her eighth industrial place amongst the industrial nations of the world, was in effect, to use the hackneyed phrase, the hewer of wood and drawer of water. For even such ordinary manufactured articles as cutlery and hardware, chemicals and drugs she had to depend to a very considerable extent on foreign sources.

Transport on the eve of the War: There is no authoritative calculation concerning the value of the internal trade. Some estimates put it at three, others six, some twelve and some even at 17 times that of the foreign trade. In any case, it cannot be doubted that the internal trade is many times the foreign trade. The transporting of the inland trade has had to be done by rail, road and coastal shipping. The railways do not reach many places in the country and what is more they have been dependent on foreign countries for locomotives. The total route mileage on 31st March 1939 was 41,134 and 40,477 in 1942. In 1942 the mileage in India works out to 104 miles per million. The figures that are available show that the railway mileage per million in Canada works out to 4,318, in U.S.A. 2,132 and in U.K. to 406. The road development in India was not only ill planned but far from adequate to meet the requirements of this huge country. The total roadways in India (including States) on 31st March 1938 was 347,132. The very backward position of India in this regard could be seen from the following comparative figures:

Comparative Statement showing road mileage to the square mile

Japan	3.00
U.K.	2.00
Germany	1.19
U.S.A.	1.00
British India	0.18

It has been calculated that, if India is to be as well developed as even the United Kingdom, the existing roadways must be increased more than tenfold. The number of motor vehicles of all descriptions in operation in India (including States but excluding Burma) on 31st March 1940 was **174,077.** While there are said to be one car for every 5 persons in the U.S.A , one for every 20 persons in the U.K., in India there is one car for every 2,234 persons.

The Road transport too has had always to look to imports of automobiles.

Most of India's sea-borne trade has been carried by non-Indian vessels. In spite of her extensive coastline, thanks to the indifference of the Government and hostility of the European vested interests, the shipping industry has practically no place in the map. As against the pre-war 13.4 million tonnage of the U.S A. and 19.7 million tonnage of the U.K., India's total tonnage amounted to only 272,000. As regards coastal shipping, a very large part of it was in the hands of European firms and they had also to depend on foreign countries for the steamers.

Dependence on foreign sources for all requirements of inland transport was and is one of the serious basic weaknesses of the Indian economic structure. Naturally a war would either stop or very greatly reduce the importing of locomotives, automobiles, steamers and their spare parts. The consequence of the inland transport system, in the war-time, may be, therefore, well imagined

General Economic Progress upto the commencement of the War. The total national dividend was computed before the war at Rs. 2,200 crores. Out of this, contribution from agriculture was estimated at Rs. 1,200 crores and the income from industry at Rs. 375 crores.

A statement of the growth of agricultural and industrial progress or national dividend, by no means, explains in full by itself the economic position of the people. They have to be correlated to the number of people of the coun-

try and per capita production, yield per acre, per capita consumption, etc., have to be analysed before the final picture is revealed.

For the economic progress of a country, the first and fundamental requisite is a high percentage of literacy. That percentage worked out to only 12.5 per cent in British India and 11.1 per cent in Indian States in the year 1941. On approximately corresponding dates, the percentages of literacy in the U.S.A. and the United Kingdom have been calculated at 75 and 76 respectively.

The capital accumulated for developing industries stands nowhere as compared to either the United Kingdom or the United States of America as the following figures would show:—

Country	Capital Invested	Per Head of Population
	(Rs. crores).	(Rs.)
India	750	19
United Kingdom	7,067	1,485
United States of America	23,000	1,765

On the eve of the war, the per capita annual income in India has been estimated only at Rs. 66, whereas for U.S.A. it was computed at Rs. 1,406, for Canada Rs. 1,038, for U.K. Rs. 980, and for Australia Rs. 796.* Of the Indian per capita income again, barely one-fifth was derived from industries.

Taking the per capita production of coal, it was estimated at 5 tons in the U.K., 3.5 tons in Belgium, 3 tons in the U.S.A., 2.3 tons in Germany, 2 tons in Australia, 1.1 ton in France and **.07 ton only in India.** The output per head of steel was computed at 650 lbs. in Germany, 605 lbs. in the United States of America, 600 lbs. in Belgium, 500 lbs. in the United Kingdom, 380 lbs. in Australia, 330 lbs. in France, 168 lbs. in Japan, 131 lbs. in Italy, 100 lbs. in Poland and **6 lbs. in India.** The quantity of electric power consumed has been calculated at 980 KWH per capita in the U.S.A.,

*The per capita income in India was estimated at Rs. 65 in 1931-32. There has been a rise in the per capita income by one rupee in eight years !

976 KWH in Belgium, 602 KWH in U.K., 560 KWH in Australia, 520 KWH in South Africa, 433 KWH in France, 368 KWH in Japan, 343 KWH in Germany, 341 KWH in Italy and **5 KWH in India.** When we appreciate the fact that steel and coal as also electricity are the basis of all the industrialisation of the advanced countries of the world, the insignificant progress made in India could be well realised.

The following are the figures of the yield per acre in the year 1939-40 for rice, wheat, sugarcane and raw cotton.

Yield per acre of certain agricultural commodities in 1939-40

Rice (tons)	
U.S.A.	1.01
Japan	1.61
India	0.35
Wheat (tons)	
U.S.A.	0.37
India.	0.35
Canada.	0.52
Australia.	0.42
Sugarcane (tons)	
U.S.A.	20.06
India.	12.66
Java.	54.91
Raw Cotton (lbs.)	
U.S.A.	246
India.	100
Egypt.	515

The following are the statistics of the per capita consumption of cotton piecegoods for some of the important countries in 1929:—

	yards
U.S.A.	64.0
Canada	37.7
Sweden	36.0
Germany	34.0
Malaya	30.6

Denmark	30.0
Japan	21.4
Egypt	19.1
Brazil	18.9
Iraq	16.9
India	16.1
Greece	15.0

In 1938-39, the per capita consumption of cloth in India was estimated at 17.9 yards. But it has been gradually falling ever since then and came as low as 12.4 yards per capita in 1942-43. The National Planning Committee estimated the minimum requirements of clothing at 30 yards for India. When we compare that with 17.9 yards in 1938-39 and the still lower figures of the war years, the awful condition of the Indians could be well realised.

The extremely unsatisfactory milk yield of the Indian cow could be realised from the following figures:—

Approximate milk yield per cow

	lbs.
Denmark	7,005
England and Wales	5,576
Germany	5,305
Holland	7,559
Scotland	5,386
Switzerland	6,498
Canada	3,195
U.S.A.	4,126
Japan	5,857
New Zealand	5,118
Egypt	2,663
India—	
Cows	525
She-buffaloes	1,270
Average	753

No wonder that Mr. Keating observed, "as compared with the dairy farmer in Europe, the Indian dairy farmer is at a disadvantage from the fact that cows and buffaloes in

India give far less milk than is given by any cow whose existence would be tolerated in Europe."*

Naturally the milk consumption per head cannot be expected to be high in India. It is probably the least amongst the advanced countries of the world. The following figures of milk consumption per capita in some countries would help:†

Milk Consumption per capita

	Ozs.
New Zealand	56
Australia	45
Norway	43
Denmark	40
England	39
Canada	35
America	33
Germany	35
Holland	35
Belgium	35
France	30
Switzerland	29
Poland	22
India	6

With the low industrial and agricultural production and insufficiently clad, it is also the misfortune of an average Indian not to have enough food to eat. Malnutrition and hunger have been ever present in the country. We have ample evidence from persons with undisputable integrity and knowledge to prove this. In 1933, the Director of the Indian Medical Service, Major-General Sir John Megaw, estimated that 39 per cent of the Indian people were fairly nourished, 41 per cent poorly nourished, and 20 per cent very poorly nourished. At least 80 million people of India were perpetually hungry. He reported further that disease is widely disseminated throughout India and is increasing

*Agricultural Progress in India, p. 115.
†Milk Problem by J. N. Mankad, p. 8.

steadily and rapidly. In Bengal 78 per cent of the population were under-nourished. "The peasantry of Bengal," he said on the basis of an official report of the Director of Health, "are in large proportion taking to a dietary on which even rats could not live for more than a few weeks." Dr. W. R. Aykroyd, Director, Nutrition Research Laboratory, observed on the 10th September 1944 that India "was never self-sufficient or nearly so in the sense that the population was abundantly or satisfactorily fed." According to him, "about 30 per cent of the population did not get enough food in normal times to cover fully its calory requirements." The same gentleman observed much earlier that "there can be no possible doubt that many millions in India never get enough food to eat."* Dr. Aykroyd still holds the same view and he is of further opinion that "there is no doubt that a high percentage of the population does not get enough to eat and this is a fundamental fact which all concerned with the task of improving the diet of the Indian people must realise."†

With such a bad economic stamina, the low health of the people of the country is a foregone conclusion. The following would give an idea of the extremely bad standard of health in India:—

	Expectation of life (Years)	
	Male	Female
U. S. A.	60.60	64.50
U. K.	60.18	64.40
Germany	59.86	62.81
Australia	63.48	67.14
Japan	46.92	49.63
India	26.91	26.56

On the eve of the war, the industrial position of India could not be said to be in any way satisfactory for any country embarking on a major war. The Government of India had all along pursued the policy of *laissez faire.* The Indian industries catered mainly for the home demand and only a few of them were just able to meet the entire Indian

*The Indian Journal of Social Work, Dec. 1941.
†*"Nutrition," May 1944, p. 15.

demand. So far as mechanical equipment was concerned, they had always to look to foreign countries even for minor spare parts. When imports were stopped or reduced, the strain on the machinery and the inability of the industrialists to replace such of the parts that had become useless could well be realised.

The lacunae in the Indian industrial field too were very glaring. Neither automobile nor aeroplane nor aluminium nor smeltering industries or for the matter of that no small or big scale machine manufacturing industry were in existence. India's deficiency in regard to electrical and general engineering, machine tool, iron and steel and heavy chemicals was also very striking.

It is with all these agricultural, industrial, trade transport and human handicaps that India at the dictates of her rulers participated in the war in September 1939.

CHAPTER TWO

HOW WAR HAS AFFECTED INDIA'S AGRICULTURE

Production and available supply during the war: We have seen how, on the eve of the war, India's agricultural position was far from being satisfactory. The following figures would give an idea of the progress of Indian agriculture during the war years.

Area and Yield of Certain Important Crops in India

	Average five years ending 1940-41	1941-42	1942-43	1943-44	1944-45 (Estimates)
Wheat					
Area (Acres 000's)	34,631	34,039	34,298	33,740	34,193
Yield (Tons 000's)	10,255	10,037	11,032	9,690	(*a*)
Rice—					
Area (Acres 000's)	73,120	73,579	75,193	81,177	80,754
Yield (Tons 000's)	25,274	25,351	24,896	30,664	27,122
Groundnut					
Area (Acres 000's)	8,249	7,070	7,697	9,808	9,841
Yield (Tons 000's)	3,260	2,586	2,858	3,823	3,560
Linseed—					
Area (Acres 000's)	3,754	3,448	3,306	3,518	2,831
Yield (Tons 000's)	445	361	411	395	(*a*)
Sugarcane—					
Area (Acres 000's)	3,935	3,515	3,600	4,234	4,134
Yield (Tons 000's)	5,144	4,371	5,076	5,848	5,422
Cotton —					
Area (Acres 000's)	23,772	24,151	18,812	20,420	14,744
Yield (Bales of 400 lbs. 000's) ...	5,554	6,127	4,554	5,072	3,368
Jute—					
Area (Acres 000's)	3,554	2,160	3,333	2,639	2,060
Yield (Bales of 400 lbs. 000's) ...	9,605	5,474	9,062	7,004	5,494

(*a*) Figures not available.

Wheat and rice are the principal food crops of the country. Neither acreage nor yield of wheat has increased to any considerable extent. In fact, the yield has been less excepting for a slight increase in the year 1942-43. The production of rice increased by 5.4 million tons in 1943-44 over the average five years ending 1940-41 but the increase has not been kept up. Yield of groundnut and sugarcane deteriorated in 1941-42 and 1942-43 and showed some increase in 1943-44 and 1944-45. The production of cotton and jute in general have been unsatisfactory during the war years. The production of four commodities in the year 1943-44 was less than that of the average five years ending 1940-41. Two commodities only show a small increase.

Only in regard to production of rice, the percentage of increase in 1943-44 appeared to be 21 per cent over that of 1940-41. In general, our agricultural production has been deteriorating during the war.

The minimum food requirements of the country have been variously estimated between 50½ and 61 million tons with seed requirements of additional 4½ million tons. The annual food production was about 50 million tons with the result that there has always been a deficit between 5 and 14 million tons. The fall of Burma and the Japanese occupation of the South East Asia cut off the main sources of supply to India. The average imports of grains, pulse and flour for the years 1936-37 to 1940-41 amounted to 1,687,000 tons. This came down to 1,107,000 tons in 1941-42. After the fall of Burma and other places in early 1942, these imports totally stopped. In regard to the net available supplies of rice and wheat during war years the following figures given by the Famine Commission would be found interesting:—

Net Supply (India) of Rice and Wheat during the last 10 years

(In millions of tons)

	Rice	Wheat.
5 years ending 1937-38 (average)	27.56	9.61
1938-39	25.21	9.77
1939-40	27.87	10.79
1940-41	23.28	9.91
1941-42	26.06	9.78
1942-43	24.64	11.00
5 years ending 1942-43 (average)	25.41	10.25
10 years ending 1942-43 (average)	26.48	9.93

The net supply of rice deteriorated in 1940-41 by 4.59 million tons from 1939-40, by 1.81 million tons in 1941-42 and 3.23 million tons in 1942-43. There was a reduction in the net supply of wheat from 10.79 million tons in 1939-40, by .88 million tons in 1940-41, by 1.01 million tons in 1941-42. In 1942-43, however, the supply of wheat improved by .21 million tons over that of 1939-40. While there has been a deficit in the supply of rice all through, in the case of wheat there was a deficit for two years and a very small increase in 1942-43.

But that is not all. While imports dwindled and finally dribbled to what little the Government could obtain, the exports continued and even in the year 1942-43 stood at 352,000 tons. To make matters infinitely worse, to these were added the abnormally heavy demands by the Army, the purchases by the Allied Governments and the requirements of half a million evacuees that came to this country from Burma.* The army purchases and exports of food-grains in 1942-43 are stated to be as much as 987,000 tons.†

The following figures made available to the members of the Central Indian Legislature during 1943 winter Session reveals to what great extent there was a deficit in the major provinces of the country, i.e., Bengal, Madras and Bombay and the two States, Travancore and Cochin:—

Normal surplus/deficit position of Bengal, Madras, Bombay and Travancore/Cochin

Province.	Commodity	Normal quantity available	Normal Production	Normal surplus(+) deficit (−) position.
Bengal	Rice ..	8,866	8,802	— 64
	Wheat ..	286	45	—241
	Millets ..	4	3	— 1
	Gram ..	117	79	— 38
Madras	Rice ..	4,903	4,581	—392
	Wheat ..	29	....	— 29
	Millets ..	1,907	1,893	— 14
	Gram ..	155	12	—143
Bombay	Rice ..	1,235	789	—444
	Wheat ..	545	310	—235
	Millets ..	1,867	1,313	— 54
	Gram ..	158	91	— 67
Travancore and Cochin ..	Rice ..	791	385	—456
	Wheat ..	13	....	— 13
	Millets ..	....	....	....
	Gram ..	....	....	....

*The purchases made by U. K. C. C. for supplying the Near East and the Middle East countries were an additional strain for which we have no figures.

†Major-General Wood was of opinion that the military demand was nothing very abnormal and amounted to only 3% of rice supplies and 2.5% of wheat supplies. In this connection, Dr. V. K. R. V. Rao, in his "War and Indian Economy" observes that "it must be remembered, however, that the strain of military demand must fall mainly on that part of the cultivator's output which is placed on the market and if this is taken as one third or 33⅓% in the case of food grains, the incidence of military demand on the actually available market supplies is much greater than the figures mentioned by General Wood, and will amount to 9% in the case of rice and 7.5% in the case of wheat."

The writer may well repeat what he has written elsewhere that dwindling imports, continuing exports and added demands, when considered in relation to the normal deficits in our food production and the under-consumption and mal-nutrition that is rampant in the country, reveal the tragedy of the one-fifth of the human race.*

Famine in Bengal: Circumstances were quite propitious for the excruciating famine in Bengal and famine conditions elsewhere. In Bengal, in addition to food deficits, panic and scare prevalent on account of the nearness of the Province to the battle area, the burning of boats consequent on the denial policy of the military authorities, the devastating cyclone that ravaged the rice producing countryside of Bengal in October 1942, superimposed by the wide spread epidemics of Malaria and Cholera all contributed richly to the tragedy that was enacted in that province in the year 1943 and to some extent in 1944 also. The Woodhead Commission has given a prominent place to the rise in prices of foodstuffs as the principal cause of famine. The prices did rise to abnormal heights. The prices of rice rose in the open market from Rs. 4-5-9 per md., in 1939-40 to Rs. 34-8 in August 1943 and in the dog days of famine and scarcity even to Rs. 60 and Rs. 80 and probably more in the black market.† People died like flies on the pavements and the second largest city in the British Empire was littered with the dead and dying. The Bengal Government's estimate of the casualties was about 7 lakhs and that of the non-official estimates about 35 lakhs.‡ The Famine Commission, in its report published in May 1945, held that the former estimate was too low and the latter too high and put down the famine casualties at 15 lakhs. Whether it was 1½ million or 3½ million people that died as a result of the famine no one would be definitely able to find out. But this much is cértain that the economic and social structure of Bengal and especially in the rural parts have been so thoroughly upset that it will take many

*Famine in Retrospect, p. 48.
†*ibid.*, p. 17.
‡*ibid.*, pp. 17-18.

years for that unfortunate province to recover its pre-famine strength. A terrible picture indeed of the enlightened British rule.*

What were the reasons for the abnormal rise in prices? They were undoubtedly and obviously the ever present shortage plus the added demands of the military and other authorities. More than that dislocation of the transport system in Bengal on account of the burning of the boats, the bad transport arrangements of the Government of India, the lack of a food policy, the inability of the Government of India to have a uniform system of food supply and distribution, the lack of co-operation between the Provinces and the Centre and the criminal profiteering of the provinces, the millers of Bengal and even the Centre itself, were responsible for the misery endured by the famine-stricken Bengal and scarcity areas of Madras, C.P. and other places.

Prices and Prosperity: Following figures give an idea of the prices of agricultural commodities during the war years:—

Index numbers of Whole-sale Prices of Agricultural Commodities.†

Week ended 19th August 1939=100)	(Average of weekly figures)
1939-40‡.	127.5
1940-41	108.6
1941-42	124.2
1942-43	166.2
1943-44	268.7
1944-45	265.4
January 1945	275.3
February ,,	274.5
March ,,	273.6

*One of the well-known British experts and permanent Secretary of the British Ministry of Food, Sir Henry French, remarked on September 16, 1944, at Lahore, "I cannot imagine such a thing happening in England," replying to the question at a Press conference whether people in the United Kingdom would be allowed to die of starvation as hundreds of thousands died in Bengal last year.

†Source: Office of the Economic Adviser to the Government of India.

‡Seven months ended March 1940.

The general rise in the price of agricultural commodities during the war years, except for a short set-back in 1940-41, has put plenty of money into wallets of the medium sized and well-to-do agriculturists. Some of them, especially in the Punjab, have done very well in spite of the fact that a considerable part of the rise has been snatched by the middlemen. Even after allowing for the higher prices paid by the agriculturists for goods, especially manufactured goods, purchased and consumed by them, there has been a real increase in the money income of the better class of agriculturists. What is more important is the fact that the burden of their money obligations has very considerably diminished.* If the price of agricultural produce has been rising, the value of land has been rising still higher. In fact, there has been a kind of boom for the agriculturists in general and in all probability this has very considerably helped the Government to keep its hold on the rural parts, even during the August disturbances of 1942.

The agricultural prosperity has, however, in the main proved a blessing only to the bigger landlords and tenants. It should not be forgotten that India has a large number of agriculturists, who possess uneconomic holdings. Even in the prosperous Punjab, nearly 25 per cent. according to an enquiry, were holdings between 1 and 3 acres and about 18 per cent have less than an acre. In Bengal 42 per cent of the agriculturists are reported to hold only 2 acres each while another 21 per cent are reported to be possessing between 2 and 4 acres each. According to the Census Report of 1921, the number of acres held by a cultivator in Madras was 4.9, in Bihar and Orissa 3.1, in Assam 3 and in the United Provinces 2.5 acres.† Then there are a huge number of landless labourers, who are still worse off. For all these people rise in prices of agricultural commodities has not meant any appreciable amelioration.

*It is a fair assumption that the agricultural indebtedness accumulated for several decades past must have been, to a very considerable extent, wiped off by now.

†We have no later figures for the whole provinces as such and the situation may be safely assumed to have taken a turn only for the worse.

How People were affected by high rise in food prices: Turning to the general public how have they fared during the war? The following figures of the food indices would be of some help in understanding the question:—

All-India Index Numbers of Wholesale Prices of Food Articles*

Month	1940	1941	1942	1943	1944	1945
January	112.7	108.2	127.1	198.8	233.0	233.5
February	109.2	103.9	127.2	193.4	243.4	231.3
March	106.6	107.6	128.4	238.9	236.8	234.3
April	108.3	105.9	134.3	243.0	233.7	......
May	108.2	108.1	144.7	264.7	228.3	......
June	104.0	114.2	158.9	299.5	233.1	......
July	104.0	126.3	160.6	300.2	236.9	......
August	103.9	122.9	163.2	291.6	237.3	......
September	105.9	121.7	173.6	280.6	234.2	......
October	105.9	122.8	172.6	268.2	233.9	......
November	110.2	131.8	184.6	269.2	235.4	......
December	108.8	132.1	195.0	243.9	231.4	......

The abnormal rise in the prices of foodstuffs has entailed great hardships and untold sufferings for the average person in this country. According to the above index numbers the maximum was steadily rising and reached to 300.2 in July 1943. Since then, on account of the control exercised by the Government, the index numbers of foodstuffs in the open market have fallen.

It should be noted that it has never been less than 231.3 per cent right through. The index numbers of wholesale prices in Calcutta for cereals rose from 86 in 1939 steadily to 396 in 1943 and was at 244 in 1944. For pulses, it rose from 99 in 1939 to 373 in 1943 and was 312 in 1944. Sugar rose from 164 in 1939 to 331 in 1944. "The other food articles," mentioned by these index numbers, rose from 125 in 1939 steadily to 574 in 1944. These Calcutta index numbers show that in March 1944 cereals were at 240, pulses at 264, sugar 288 and "the other food articles" at 570. With such undreamt of rise in prices, the privations of the general public could be well imagined. Barring the cultivators, who had their own foodgrains to eat, all other sections of the public have had to spend a very considerable part of their income, by far in excess of what they spent in

*Worked out by the Office of the Economic Adviser to the Government of India.

pre-war years, on their food requirements. While the prices rose, nowhere the increased earnings resultant on war conditions kept up their pace. The prices of the foodstuffs were doubled and trebled but the extra remuneration in most cases of the people rose only by about 50 per cent of their pre-war earnings.

Governmental policy and action during the war regarding food: How did the Government handle the situation? The Government of India failed to foresee the effect of war on the Indian agricultural economy. When they embarked on the war, they had no ideas at all nor any policy of their own in regard to agriculture. The Agricultural Commission a decade and a half earlier said that the Government of India had no agricultural policy. That continued right up to the beginning of the war, to a considerable time after and holds good even now to a great extent. The food situation in India was made worse during the war years by the shilly-shallying policy of the Government of India and bad administrative bungling.

Without considering the consequences in detail, all of a sudden, the Government of India launched on wheat control on December 5, 1941. Wholesale transactions in wheat at a rate above Rs 4/6 per maund at Lyallpur and Hapur were prohibited and the Provincial Governments were authorised to determine the maximum price at any other market taking into consideration "the normal relation between prices at such places and at Lyallpur and Hapur". The prices in the country refused to correspond anywhere to the Government control. The Government were compelled in March 1942 to revise the price to Rs. 5/- for Lyallpur and Hapur, to Rs 5/4 for Mirpurkhas and Nawabshah in Sind. Earlier a Wheat Commissioner for India was appointed to supervise and co-ordinate control operations. In April 1942, the Provincial Governments were permitted to control movements by road or river and the Wheat Commissioner was empowered to issue permits for movement by rail from exporting provinces to consuming regions. The Provincial Governments

were deprived of the right to control movement by road or river on the 29th May 1942, but on the representation of the Punjab Government, it was restored to them on 20th July 1942. On the 21st May, 1942, the Foodgrains Control Order was put into operation by the Government to control supplies in addition to prices, as they found by that time that the price control of wheat by itself was not successful. This order authorised the Provincial Governments to license the wholesale dealers in foodgrains and to compel them to give statements of their transactions. On the 28th May of the same year, this Order was utilised to prohibit 'futures' and 'options' in order to do away with speculation. None of these actions were successful, for the very simple reason that there was no control over the existing stock or the distribution. Neither was there inter-provincial co-operation nor the requisite efficient and honest administrative machinery in all the provinces. Speculation was fully rife, cornering and hoarding were the rule of the day and wheat disappeared from the market. As the price of wheat alone was controlled, the prices of other foodgrains rose to dizzy heights and at some places the proletarian *bajra* was even costlier than bourgeois wheat. After vainly struggling for over a year, the Government of India decontrolled wheat on 24th January 1943. Wheat once again came into the market and for a considerable time was round Rs. 10 at Lyallpur. It was only after learning a bitter lesson that the Government introduced a better type of price control and the retail price of wheat in the Punjab at the commencement of this year was in the neighbourhood of Rs. 9-8 per maund.

The Foodgrains Control Order had a twofold purpose. Firstly it attempted to segregate the sheep from the goat, viz. the legitimate trader from the speculator. It also attempted to obtain information concerning wholesale stocks of foodgrains and their movements. All persons other than purchasers of foodgrains purchasing, selling or storing for sale quantities above 20 maunds in any one trans-

action of any of the specific grains have had to apply to the Provincial Government for licence. Licences were issued to all those engaged in the normal channels of trade and the licence-holders were required to submit monthly statements of the transactions. The Order now applies to all major foodgrains including millets and pulses. Here again the Provinces and the States took their own time to enforce the Order and although it was supposed to have been enforced all over the country by the end of 1942, neither the people nor the Provincial Governments, not to speak of the Indian States, paid much heed. False returns, delays, inefficiency and corruption reigned supreme. Food crisis developed in the summer of 1943 and reached its peak during the winter of the same year in Bengal. That unfortunate province had no reliable information of stocks. The Government woke up to the situation sometime in July 1943 and appointed the Foodgrains Policy Committee. The Committee proved an exception to the other Committees appointed by the Government of India. The Committee took to their task seriously and evolved a plan of food production, procurement, distribution and prices on an all-India basis and submitted their report in September 1943. Whatever policy the Government of India may have and to whatever extent they may be following it is all due to and based on the findings of this Committee.

The war started in 1939 September but the Food Department in the United Kingdom, created sufficiently early in 1936, was already functioning and immediately took charge of the food situation of the country. In India, barring the ill-conceived Wheat Control of 1941, nothing tangible was done to meet the situation even for months after the fall of Burma early in 1942. The Food Department in this country had a separate Secretary only late in December 1942. Mr. N. R. Sarkar, the then Commerce Member of the Government of India took charge of the Food Department and on his resignation in February 1943, Sir

Azizul Haque took up the portfolio and Sir Jwala Prasad Srivastava succeeded him in August 1943.

The Foodgrains Policy Committee recommended the institution of statutory price control over all major foodgrains in the Provinces and the States. They emphasised as the minimum conditions necessary for success, (1) the necessity for effective procurement machinery, (2) the strict and drastic enforcement of the Foodgrains Control Order and the anti-hoarding measures, (3) rigorous control over transport and (4) the necessity for building up of Central as well as Provincial and State reserves. The Committee also recommended price control of a number of non-agricultural commodities, especially those needed by the cultivators. The Government accepted the recommendations of the Foodgrains Policy Committee, stopped the export of foodgrains from India excepting to a small extent to meet military needs. The Transport Department of the Government of India was pulled up. The administrative machinery of Bengal, which was till then so very badly out of order was also put into some sort of shape. Maximum prices were fixed by statute for all the important foodgrains. Rationing was introduced in cities. In July 1944, the Government appointed a Commission known as the Indian Famine Enquiry Commission to enquire into the causes of food shortage and the crisis that developed in India with particular reference to Bengal. The Commission reported early in May 1945 and generally upheld the popular criticism against the Governmental machinery, management and bungling.

Inadequacy of Governmental Action: As we have already mentioned, it is the Foodgrains Policy Committee Report that is the basis for whatever policy the Government may be said to have on date. If the findings and action thereon have not been more effective, it is not due to any defects of the recommendations as such but owing to the lack of co-ordinated action between the Provinces and the States, transport difficulties and inefficient Governmental

machinery. The Committee strongly recommended as one of the immediate remedial measures the securing of maximum supply and equitable distribution for the duration of the war. Now the supply could be increased in the war period only by local production or imports. We have already seen that, in spite of the fan-fare of trumpets which attended the inauguration and preservation of the "Grow-More-Food Campaign," the results are by no means satisfactory. We have been informed that, while the pre-war average area under all foodgrains was 195 million acres as a result of the campaign it has been increased to 206.3 million acres. The Government spokesmen have also stated that the average area of the three pre-war years under rice cultivation which stood at 73.8 million acres in the pre-war years has been increased to 75 million acres in 1942-43 and still further in 1943-44 and 1944-45.* We have seen that the production of rice has risen in 1943-44 by 5.4 million tons over the average five years ending 1940-41. On the other hand the production of wheat was a little better in 1942-43, and was less by .6 million tons in 1943-44 when compared to the average of 5 years ending 1940-41. We do not know whether the sponsors and those conducting the "Grow-More-Food Campaign" have much reason or any reason for the matter of that to be jubilant. As regards imports, the Foodgrains Policy Committee, knowing full well that the internal production would not be sufficient to meet the requirements, insisted that one million tons of foodgrains should be imported annually with an additional ½ million tons in the first year for the purpose of creating a central reserve. In the year 1944 the imports reached were just about a million tons, and there were no signs of the additional 500,000 tons.

Authoritative circles in the international world are pointing out that there will be a serious world shortage in foodgrains and in all probability there are bound to be serious famine conditions in Europe during the second half

*The acreage has risen to 81.2 million in 1943-44, and 80.8 million in 1944-45 (Estimate).

of 1945 and 1946. Blood is thicker than water. The hostilities having ended the white countries and white dominions would think it their duty first to help the starving people of Europe. It is incumbent on the Government of India to arrange for continued supply of foodgrains for this country also. The capture of Burma, we have been informed, cannot for some time to come guarantee much of relief. It is stated that at best Burma may be able to supply 500,000 tons of rice and that after a while. But then even this amount cannot be relied upon and even if India succeeds in getting it, it is 700,000 tons less than prewar imports from Burma.* For any successful working of the Food policy, the Government of India must perfect their machinery and organisation for procurement and distribution. The surplus Provinces still continue to hug their bloated hoards of foodgrains and refuse to part with them. The Central Government have so far shown neither a strong inclination, courage nor the vigour for enforcing a uniform policy. Their record both in Sind and the Punjab has been particularly bad. Even now charges of profiteering are frequently made against the Provincial Governments. The Government of India must empower themselves with sufficient authority to prevent these flagrant abuses of their instructions.

The Policy Committee laid great stress on control and regulation of prices. The Governmental control and regulation of prices of foodgrains have, on the whole, been satisfactory in urban areas where the rationing system operates. It is non-existent, however, for the majority of the people, who inhabit the rural areas and who themselves do not produce foodgrains. It has been claimed that the rationing system has been working very satisfactorily. To some extent it is true. There is, however, some lack of

*A press communique of the Government of India stated in July 1945, that the Government of India have prevailed upon His Majesty's Government during the next six months to ensure supplies of wheat to India at the rate of 100,000 tons a month. The Government of India have to be commended but they should strictly heed the advice of the Foodgrains Policy Committee that for some years to come they must somehow manage to import a million tons annually.

uniform policy and failure to apply the principle of equality of sacrifice. For instance, children above ten years are considered adults in Northern India, in South India only those above 12 years. The quantities allowed under rationing vary from place to place. The worst is in regard to sugar rationing. Citizens of Bombay and Calcutta get a sugar ration of 39 lbs. per annum, while those of Delhi are allotted only 32½ lbs. The military authorities have their own way of allotting sugar rations. The British serviceman gets 80 lb. per annum, plus extra quota in canteens, while the Indian soldier is allotted, in all, a quota of 55 lbs.

Comparison with the other countries: In addition, efficiency leaves much to be desired. In the Central Legislative Assembly, Mr. Griffiths mentioned in 1944 his experiences during his recent visit to England. He was above all impressed with the complete equality of the sacrifice and the efficiency even in small matters of food administration. He reached the railway station nearest his home at 9-30 in the morning and by five minutes past ten, he had secured his ration card, cloth coupons, etc. His servant, on the other hand, took three weeks and a series of visits to the rationing authority coupled with three personal letters from himself before he obtained his ration card. Even in the imperial city of Delhi, it takes at least 3 days for a hafty live-wire non-official and a couple of days for a member of the Central Assembly to get his ration card.*

It is worthwhile enquiring as to what happened in other belligerent countries and how they managed during the war years to meet the situation. The United Kingdom has had for many decades to look abroad for her food requirements. In fact, she had argiculture only as a minor occupation and yet she was able to achieve remarkable re-

*The Honourable Sir J. P. Srivastava stated in the Central Legislative Assembly on the 10th March 1945, that one could get his ration card at Delhi within 6 hours. Mr. K. B. Jinaraja Hegde, M.L.A., imminently challenged him stating that he could not get this for full 48 hours. The present writer and his friends could get cards only after four days and more and that also after at least three visits to the rationing authority.

sults both as regards agriculture as well as cattle wealth. The following figures would help to understand the great achievements of the United Kingdom during the war years:—

Agriculture and Cattle Wealth in U. K.*

	1939	1941	1943	1944	(Preliminary) Per cent. change on 1939
000 Acres.					
Wheat	1,766	2,265	3,464	3,230	+ 82.9
Barley	1,013	1,475	1,786	1,980	+ 95.5
Oats	2,427	3,951	3,680	3,684	+ 51.8
Mixed Corn and Rye	103	595	636	551	+435.0
Total Grain ...	5,308	8,285	9.566	9,446	+ 78.0
Pulse for Fodder	172	259	314	347	+101.7
Potatoes	704	1,123	1,391	1,421	+101.8
Roots for Fodder	943	1,104	1,116	1,136	+ 20.5
Sugar Beet	345	351	417	434	+ 25.8
Vegetables for Humans	280	349	375	466	+ 66.4
Flax	26	157	161	200	+669.2
Total Tillage (*a*)	8,813	12,714	14,502	14.617	+ 65.9
Temporary grass	4,093	3,526	4,217	4.752	+ 16.1
Total Arable ...	12,906	16,240	18,719	19,369	+ 50.1
Permanent Grass	18,773	15,114	12,319	11,698	– 37.7
Total Crops and Grass ...	31,679	31,353	31,038	31,068	– 1.9
Rough Grazings	16,539	17,003	17,117	17,172	+ 3.8
000 Head.					
Cows and Heifers in Milk and Calf	3,885	3,988	4,324	4,377	+ 10.2
Other Cattle	4,987	4,952	4,935	5,169	+ 3.6
Total Cattle ...	8,872	8,940	9,259	9,546	+ 7.6

The acreage under wheat, barley, oats, mixed grain and rye have all shot up. Still more have been the acreage brought under cultivation for fodder, potatoes, vegetables, etc. Cows and heifers have increased by 10.2 per cent in 1944 as against 1939. A comparison between these figures and Indian cattle wealth is very damaging to the latter:

Live Stock

			1920-21	1924-25	1928-29	1932-33	1936-37	1940-41
	A.—British India (*excluding* Burma)							
(*i*)	Bulls & Bullocks	(000)	46,560	48,558	48,650	48,988	48,563	46,855
(*ii*)	Cows	,,	35,795	36,433	36,484	36,518	36,936	36,445
(*iii*)	(*a*) Male Buffaloes	,,	5,063	5,054	5,087	5,158	5,461	4,911
	(*b*) Cow Buffaloes	,,	12,904	13,795	13,993	14,278	14,959	14,084
(*iv*)	Sheep	,,	22,023	23,140	22,987	25,117	23,754	28,520
(*v*)	Goats	,,	24,045	38,982	37,223	35,249	36,249	39,254
(*vi*)	Area under fodder crops	(000 acres)	7,883	8,619	9,008	9,728	10,573	10,466

(*) The Economists, Commercial History and Review of 1944.

For over 20 years, i.e., 1920-21 to 1940-41, India's cattle wealth has been practically stationary so far as bulls and bullocks, cows, buffaloes—male and female—are concerned. Sheep and goat alone have showed an increase in the period. We have no later figures for the war years. The complaints received everywhere show that huge inroads have been made into our cattle wealth and at the next census there would be in all probability a serious decrease. If it was only the useless cattle that has been slaughtered and consumed, the country would probably be much better off. But we have no means of knowing it. The general complaint is that anything growing a horn or hoof, with the exception of pack animals like donkeys, mules, camels and horses, have been taken to the slaughter house.

Production of agricultural crops has been increased in the U.S.A., Canada, Australia, as well as in the belligerent Axis countries too. Now let us see the retail prices in the United Kingdom. The retail food prices in the U.K. have been steadily maintained at less than 25 per cent during all these troublous years of war. The following figures would help in understanding how admirably the food administration of the United Kingdom has taken care of the people of the country:—

Index of Retail Food Prices in U.K.
(Sept. 1939=100)

September, 1939.	100
December, 1943.	122
March, 1944.	122
June, 1944.	122
September, 1944.	122
December, 1944.	122
January, 1945	122

When we compare the above with the huge prices in India, the Indian Government suffer badly in reputation. The retail food prices in India even on date is more than 350 per cent and is often between 400 to 500 per cent of what it was during the pre-war years. In the agonising days of 1943, it has already been pointed out, how worse

it has been and how badly the people suffered. *Not only the United Kingdom but almost every belligerent European country has been able to feed the people at extremely reasonable cost. The following figures would show how Canada has been able to increase her food supply in most cases during all the war years:—

Supplies of food moving into Civilian Consumption in Canada

Kinds of food.	Pounds per capita per annum			1944 as per cent of pre-war
	1935-39	1943	1944*	
Milk and milk products, excluding butter ; total milk solid..	58.2	67.6	69.6	119
Meats, including cured and canned (as carcass weight) ..	119.6	154.2	157.7	132
Poultry, game, and fish (edible weight)	25.8	29.6	27.4	106
Eggs (fresh equivalent) ..	30.5	35.3	36.8	127
Oils and fats (fat content) ..	41.2	43.4	42.8	104
Sugars and syrups	103.3	88.6	89.6	87
Potatoes	195.9	206.2	190.3	97
Pulses and nuts (unshelled weight)	12.6	11.5	15.7	125
Tomatoes and citrus fruit (fresh fruit equivalent)	58.5	74.3	89.3	153
Other fruits and fruit products fresh equivalent)	80.7	74.8	89.1	110
Leafy green and yellow vegetables	43.9	40.3	50.8	116
Others vegetables	34.0	25.9	34.0	100
Grain products	206.9	224.5	221.8	107
Beverages (tea, coffee, cocoa)	10.8	9.0	10.5	97

Here is what a London correspondent of the "Hindu" cabled some months back about the situation in Belgium and France, when the Allied army had just re-captured that part:—

"When we landed in France we were surprised and almost perplexed at the abundance of food in Normandy. Quite obviously no one has been starving there, but we thought that perhaps it was because Normandy is agriculturally so extensively rich. Yet when we advanced out of it there was no great change. In Paris the people do not look pale, prinched or starved. Even during the transition period before the liberation, there was food to be had. There is great hard-

*Preliminary, subject to revision. Source : Dominion Bureau of Statistics.

ship in working class quarters. No one could pretend that things there are anywhere near normal. But I submit that the food situation in most France is better than it was in Italy. I have driven through many little villages and stopped at Inns for lunch and they always produced something and they sold it willingly. Their diet certainly is worse since the war, but your vision of a famine-stricken Europe must go by the board.

"In Belgium, the situation seems even better than in France. *En route* to Brussels I went into the kitchen of a country house. The housewife confided to me that they had not really been badly off in Belgium. Everything was organised and even poor people were kept alive. The working people in slums have suffered and there has been progressive malnutrition owing to shortage of fats, but it is not so terrible as we had feared it would be. It is not like Italy where any scrap of food left over from our rations was ravenously accepted. Here, in Belgium, they rather shrug their shoulders at our tinned stuff and offer us their fresh food in return."

In a recent memorandum of the Imperial Council of Agricultural Research, the total requirements of the food products and amounts available at present have been estimated as follows:—

Total requirements of Food Products and the amounts available at present in India

	Ounces per day per adult		Total quantities in million tons.	
	Required for a balanced diet	Available at present	Required	Available at present
Cereals ..	18	17.5	54.0	52.5
Whole milk ..	8	1.5	32.0	6.3
Butter Milk ..	....	3.0	....	12 .5
Vegetables ..	6	3.0	18.0	9.0
Pulses ..	3	2.5	9.0	7.5
Meat, Fish, Eggs	2 to 3	0.5	6.0 to 9.0	1.5
Sugar	2	1.8	6.0	5.3
Fruits	2	2.0	6.0	6.0
Fats & Oils ..	1.5	0.6	4.5	1.9

Barring groundnuts, the amount available is uniformly less and in certain cases like milk, vegetables, pulses, fats and oil by far less than what is required for a balanced diet. Mr. W. H. Kirby, the Rationing Adviser to the Government of India, early in November 1944, mentioned that "there are millions upon millions of people in India, who have never had a proper quantity of food, not even 1,600 calories a day". This is the latest authoritative statement on the starvation in India. One would have thought that with such starvation and influx of war conditions, Government would have been more careful and taken appropriate measures to prevent the situation getting aggravated. The whole history of the 6 years of war has proved the inefficiency of the persons at the helm of the affairs and the inadequacy of the methods adopted to cope with the situation. As against the malnutrition and starvation in India, almost every powerful European belligerent country, as already mentioned, has been able to feed her people sufficiently at any rate to enable them to exist and work efficiently.

Mrs. Churchill stated in 1943 that the rationing in the United Kingdom was very efficient and the rationed quantities were sufficient enough for the well-being of the people and that, in fact, she had put on weight after rationing had come into force. Before the war, a member of the labouring and artizen classes consumed 1,500 units of vitamin A daily whereas during the war years he has been consuming at least 2,500 units. Those engaged in heavy manual labour have been given 3,000 units. It has been found as a result of scientific enquiry that during the war years, an average British boy and girl of 12 years is 2½ and 2 inches taller respectively than those of similar age in pre-war years* Whatever might have been the inadequacy in regard to other war preparations of the British Government, when the war started, they had learnt well the lesson learned in the last war and made thorough ar-

*Prof. Merrack in "Science and Culture," Vol. 9, 1943.

rangements in the economic field to meet the situation. The Food Department was already in existence and took charge immediately. Huge quantities of food and raw materials were gathered and stored. Comprehensive controls over the entire range of economic field including transport, storing and stocking, banking and foreign exchanges were imposed as soon as the war started. Strict attention was paid to keep the price under control and the Governments took energetic steps for ensuring equitable distribution of the necessary supplies such as food, clothing, etc. Production was encouraged by systematic subsidies. Great emphasis was laid on the increase in home production. No wonder that even in her worst hour of trial, so far as essential foodgrains were concerned, England was never at a loss. The acreage under grain production went up in England by 78 per cent in 1944 and by more than a fifth in the United States of America.

In the United Kingdom, United States of America, Canada and Australia, we have definite information as to the thorough-going measures adopted towards internal production. By subsidizing the farmers systematically, they were able to stop the general rise in prices of foodstuffs and nullify the other forces of inflation. The United Kingdom Government have been spending about 200 million pounds a year on subsidies. The Government checked, to a large extent, rise in prices by centralising production and purchases of foodstuffs and by control of margins, selling prices of distributors. The Ministry of Food was permitted to suffer heavy trade losses in the first instance and they were later passed on to the Exchequer. By this two-fold process, they were able to keep down the prices of food articles, to a remarkable extent, as shown by the index number of retail food prices.

In Canada, the Government spent 65 million dollars on subsidies between December 1, 1941, and March 1, 1943. The Government also shouldered the losses to the extent of 5 million dollars arising out of the bulk purchases of

imported foodstuffs. In all areas, where there was no price increase, since August 1, 1941, producers were given a subsidy of 30 cents per 100 lbs. In order to stabilise the cost of living index and to give benefit to reduction in prices of milk to the Canadian consumers, the price controlling authorities paid 2 cents per quart to the distributors for the milk which they passed on to the consumers at a price lower than the pre-war one. Canada by all these measures has been successful in maintaining her cost of living index within 17 per cent of the pre-war level. The Australian Government took stringent methods to prevent any general price increase after April 1943 and paid subsidies from Government funds to meet increased costs incurred by the producers. The Australian Potato Committee made over from July 1943 till April 1944 about £1,351,033 by way of consumer subsidies. In all subsidy payments in 1942-43 amounted to £4.8 million, in 1943-44 to £24 million and in 1944-45 it is estimated to total £35 million. The Government of the Commonwealth in spite of the shipping shortage also managed to import 4,431 tractors, which very considerably helped to keep the efficiency of agricultural production. Similarly the Government of the United States of America have always been prompt to safeguard the interests of the producers and the consumers. In spite of the heavy expansion in currency, the cost of living in the U.S.A. has been maintained at 25 per cent of the pre-war level.

It is only very recently that the Government of India have thought of examining the question of subsidizing foodgrains and foodstuffs. A Committee has been appointed to examine the social, financial and administrative aspects of the problem in the light of the facts and figures that have now been collected. What other countries did either on the eve of the war or soon after the outbreak of the war, the Government of India appointed a Committee after full five and a half years of the commencement of the war and while the war is over the Committee have not reported!

What should be done regarding the reconstruction of our agricultural economy: The "Economist"* pertinently observed that "The only real cure is an economic revolution in country and town as wide ranging and drastic as the modernisation of Russian agriculture by co-operative means and State capital. But even if the British in the last period of their expiring lease in India can do little more than scratch the surface, they can at least begin the process of reconstruction. In both, this country and the U.S.A., principles of war economy give the bare necessities of civilian life as high a priority as munitions. In India the belt has been tightened with less than no slack to take in."

We have to envisage a twofold planning. For our immediate needs, import is the only solution followed by severe attempts to increase the internal production. The Foodgrains Policy Committee have laid stress on this. The internal production cannot be increased without a heavy import of fertilisers in the first instance and establishment of fertilisers industry in the country as early as possible. As regards long-term planning, irrigational facilities have to be expanded greatly. There was just 55 million acres of irrigated land in British India in 1939-40. The Bombay Plan has rightly envisaged a three-fold expansion of the irrigation and only, when that has been accomplished, an adequate water supply to the fields could be said to be available.

There is still land available for bringing under plough:—

Land Utilisation in India

	Net area sown (million acres)	Cultivable Waste (million acres)	Forest (Square miles)	
			Usable.	Nonusable or inaccessible.
Bengal	24.7	5.7	8,972	3,466
Bihar	19.3	5.1	8,802	747
Orissa	6.4	3.5	1,519	2,159
United Provinces	36	9.9	5,412	11,960
Madras	32	10.5	16,573	16,694
Punjab	27.2	4.1	1,872	4,120
C. P. and Berar	24.5	13.9	33,521	14,022
Bombay	28.7	0.8	7,840	5,306
Assam	6.2	18.8	†	21,307
Sind	5.1	5.8	1,154	..

* October 30, 1943.

† Details not available.

The land styled as cultivable waste is other than the fallow land. In all probability a large part of this could be brought under cultivation. Dr. Maclagan Ghorie, Director of Surveys in India, estimates that if the large-scale planning is to be adopted by the Central and Provincial Governments, 170 million acres of **Barani** land (land dependent on rain alone) and waste could be made available for cultivation.*

Even as it is, we are informed that the following increased agricultural output is possible in India, through varieties of seed, more and better manure and protection from pests and diseases alone (not taking into consideration the increase possible through consolidation and joint cultivation, etc.):

	per cent
Rice	50
Wheat	20
Jowar	20
Bajra	25
Maize	25
Oilseeds	75 to 100
Jute	25

Our fisheries have not been systematically developed nor was our cattle-wealth been properly looked after. With better and more fisheries development, stock breeding and raising, the food problems of the country, to a reasonable extent would be easened.

It is idle to draw schemes of nutrition policy until we are able to produce sufficient food. The problem of food aggravated by war, is not better food so much as more food. When the hungry mouths have been filled then would be time to consider schemes on balanced diet and nutrition.

For any improvement of agriculture, comprehensive enquiries and studies would have to be made into our food problems. Sir Manilal Nanavati has stressed the necessity of building up an adequate administrative organisation to

*Article in the "Modern Review", Jan. 1944.

study India's rural problems in all their aspects.* He rightly holds that a Department of Agriculture should be set up at the Centre and it should take a comprehensive view of all the problems directly or indirectly having a bearing on agriculture. A net work of research organisations guided by the Centre should be organised for fuller collection of precise data and all aspects of agricultural economy. The following information should be collected among other things in all provinces and States on uniform basis:—

(1) who owns land;
(2) who cultivates the land and on what terms;
(3) what is the equipment of the cultivator;
(4) what crops he raises; and
(5) what is the approximate value of the produce.

*An address at the 5th Conference of the Indian Society of Agricultural Economics, 26th December, 1944.

CHAPTER THREE

THE IMPACT OF WAR ON INDIAN INDUSTRIES

Indian Expectation: With the outbreak of the war, it was justifiably anticipated that there would be a sharp decline in the imports of goods with a natural fillip to Indian industries. After the outbreak of the Russo-German war and the Japanese war, it was becoming increasingly clear that India was to be the bastion of democratic and of all anti-Nazi and anti-Fascist forces in the East. That fact again led the Indian economists and public men to thinking that India would be greatly industrialised during the war in order to play her part effectively during the war and after war as well. The decline in imports especially of manufactured commodities, rapidly set in. Imports of textile manufactures, glassware, leatherware, paper, stationery, hardware, soaps and many other manufactured commodities began to decline and finally to dwindle to insignificant proportions. The expectations of the public in this regard were fulfilled. Along with them, unfortunately, the imports of machinery also dwindled to a considerable extent. The visits of Roger and Grady Mission in order to study, at first hand, India's actual and potential war help and the establishment of the Eastern Group Supply Council all led to high hopes being entertained concerning the industrialisation of the country. The Government of India also gave an assurance that they would not let down the industries encouraged and started for war needs and that "those enterprenurs, who had come to the assistance of the State, would not be left high and dry to take care of themselves."*

Wartime progress in number and capital: The following are some figures concerning the joint-stock companies registered in India during the war years:—

*The Hon'ble Sir Ramaswami Mudaliar on behalf of the Government of India.

Number of Companies in British India and Hyderabad, Baroda, Mysore, Travancore and Cochin States and their aggregate subscribed and paid up capital at the end of March.

Year		No. of Companies.	Subscribed Capital.	Paid-up Capital.
			(Rs. 000)	(Rs. 000)
1939	..	11,114	329,17,68	290,39,19
1940	..	11,372	339,82,06	303,67,50
1941	..	11,617	341,24,15	302,77,07
1942	..	12,176	354,11,95	315,45,62
1943	..	12,993	354,01,55	313,01,09
1944	..	13,921	352,14,00	309,01,04

The number of companies has risen from 11,114 in 1939 to 13,921 in 1944. Their paid up capital has increased in the same period from Rs. 290 to Rs. 309 crores. In other words, an increase of Rs. 19 crores or about 4 per cent per year during the war years has taken place. Following are the details of the various classes of companies for the year 1939-40 and 1942-43, the later details not being available:—

Joint Stock Enterprise.
Paid-up Capital of Companies at Work.
(The figures in brackets denote the number of Companies)
(In lakhs of rupees)

Description. At end of	1939-40	1942-43*
(A) British India (ex-Burma)		
All Companies	(10,368) 288,50	(11,788) 316,38
1. Banking, Loans and Insurance ..	(2,398) 26,43	(2,109) 29,30
2. Transit and Transport	(498) 23,33	(617) 23,37
3. Trading and Manufacturing	(4,728) 107,44	(5,985) 126,45
4. Mills and Presses	(944) 66,02	(1,071) 73,41
5. Planting Companies	(498) 13,53	(535) 13,64
6. Mining and Quarrying	(297) 20,00	(349) 20,44
7. Estate, Land and Buildings	(235) 12,75	(315) 13,72
8. Breweries and Distilleries	(16) 60	(20) 69
9. Sugar Manufacture	(157) 10,98	(160) 11,50
10. Hotels, Theatres and Entertainments ..	(465) 5,79	(468) 3,08
(B) Indian States		
All Companies	(1,004) 15,18	(987) 19,75
1. Banking, Loans and Insurance ..	(451) 3,95	(331) 4,52
2. Trading and Manufacturing	(299) 1,81	(390) 3,25
3. Mills and Presses	(73) 5,77	(89) 6,97

The paid up capital of manufacturing companies, mills and presses, banking companies, mining and quarrying, sugar trading and manufacturing etc., all show some progress. There is one thing common with these figures as well as the other statement, given above. While the number of companies has increased, the paid up capital at the disposal of the companies *pro rata* has not increased and, in fact, has even decreased in some cases. The following figures give the increase or decrease of the total paid up capital of the companies:—

Net increase or decrease in the paid-up capital at the disposal of the companies in British India and the five principal Indian States.

(Rs. 000)

		Increase.	Decrease.	Net rise.
1941-42	..	13,84,45	1,15,90	+ 12,68,55
1942-43	..	22,42	2,66,95	— 2,44,53
1943-44	..	26,49	4,26,54	— 4,00,05

Evidently most of the companies started during the war have not been estimated on a stable footing, and the establishment of a number of new companies has just off-set the liquidation of others. In the absence of details concerning various industries, we are unable to find out which industries, as such, have decreased or increased in the later years.

The applications received for starting and expanding industries provide some light in regard to the war industrial ventures. During the first six months of the operation of the Control of Capital Issue Scheme, launched in 1943, about 500 applications were approved involving a total capital of Rs. 15 crores. Out of these 68 applications totalling Rs. 4 crores of capital were with reference to starting or expansion of cotton textile mills, 57 proposals involving a capital of Rs. 1.7 crores were for iron and steel and engineering industries, 63 proposals with a capital of Rs. 1.5 crores were for the manufacture of chemicals, drugs and medicines and 50 proposals with a capital of Rs. 12 lakhs dealt with film production and distribution. The other 295

proposals related to public utilities, leather goods, tobacco, paper, stationery, printing etc. In the period covering the year 1944 and the first quarter of 1945, the Government of India sanctioned, under the Control of Capital Issue Scheme 864 proposals classified as industrial. They did not sanction a number of proposals, which, in their opinion, would aggravate wartime pressure on materials and services in short supplies, including coal and transport. Out of 864 proposals sanctioned, 362 were for initial issues by new companies, while 502 were for further issues by old companies. The amount of approved issues for initial issues was Rs. 16.05 crores and for further issues Rs. 20.52 crores.

Taking applications for initial and further issues together, it is found that the industries for each of which consent orders covering a total exceeding one crore of rupees were granted in the period were the following:—

Chemicals (including pharmaceuticals and medicines), Rs 508 lakhs (151 cases); engineering of all kinds, Rs. 380 lakhs (109 cases); spinning and weaving mills, Rs. 375 lakhs (56 cases); Cement works, Rs. 344 lakhs (one company only); mining and quarrying, Rs. 309 lakhs (65 cases); sugar factories, Rs. 249 lakhs (19 cases); breweries and distilleries Rs. 172 lakhs (9 cases); film production, Rs. 110 lakhs (13 cases); public utilities (electricity), Rs. 106 lakhs (51 cases); and food preservation and dehydration, Rs. 102 lakhs (24 cases).

We are afraid, excepting in the case of further issues most of the schemes under initial issues must have been dormant during the wartime. We have no information that these companies have been started and are working. They have had no facilities and probably no chance even for importing the necessary machinery or raw materials. As regards expansion of the existing companies, it must be noted that raising further capital is one thing and increasing production proportionately another.

Increase in employment of labour and production: There has been some increase of labour employed in

factories, production, etc. The following figures of factory employment in India would be of interest:—

Factory Employment in India

(In thousands)

(Industries)	1939	1942	1943	Increase in 1943 over 1939	Increase in 1943 over 1942
Government and Local Fund Factories :					
Clothing	2	29	29	27	..
Dockyards	5	10	13	8	3
Engineering (General) ..	8	16	23	15	7
Railways	56	90	93	37	3
Miscellaneous	5	9	19	14	10
Mints	2	5	7	5	2
All Other Factories :					
Textiles	817	965	1,002	185	37
Engineering	148	224	254	106	30
Minerals and Metals ..	55	82	93	38	11
Food, Drink and Tobacco	97	121	125	28	4
Chemicals and Dyes, etc.	56	73	83	27	10
Paper and Printing ..	44	49	51	7	2
Wood, Stone and Glass ..	52	82	90	38	8
Hides and Skins ..	13	30	34	21	4
Miscellaneous	20	38	37	17	1
Grand Total ..	1,751	2,282	2,436	685	154

All Government and local fund factories show progress. Progress is also well marked in the case of other factories. The number of workers on the whole has risen from 1,751,000 in 1939 to 2,436,000 in 1943. In other words, there has been an addition of 685 thousand labourers employed or 39 per cent increase in 1943 over 1939 in various factories. Out of these textiles account for an increase of 185,000 and engineering 106,000. Of the Government factories, clothing, engineering, railways and miscellaneous show maximum increases. The statistics of production of industrial commodities during the recent war years are incomplete. To what extent they are available, they are given below:—

Industrial Production in India

	1938-39	1940-41	1942-43	1943-44
1. Jute Manufacturers (including twist and yarn) (000 tons)	1,221	1,109	1,053	947
2. Paper (000 cwts.)	1,184	1,753	1,821	1,486
3. Iron and Steel—				
(i) Pig Iron (000 tons)	1,576	1,959	*	*
(ii) Steel Ingots ,,	977	1,285	*	*
(iii) Finished Steel ,,	726	925	*	*
4. Heavy Chemicals—				
(i) Sulphuric acid (000 cwts.) ..	512	778	*	*
(ii) Sulphate of Amonia (000 tons) ..	15	28	*	*
5. Cement (000 tons)	1,512	1,727	2,183	*
6. Sugar (all kinds) (000 cwts.) ..	13,360	23,570	12,773	*
7. Matches (000 gross)	21,064	23,125	14,831	*
8. Petrol (000 gals.)	19,820	24,116	*	*
9. Kerosene (000 gals.)	38,731	41,774	*	*
10. Paints (000 cwts.)	577	805	991	*
11. Wheat flour (000 mds. of 82-2/15 lbs. each)	16,483	16,900	13,392	11,424

* Not available.

Output of Cotton Manufactures in India

	1938-39	1940-41	1943-44
Piecegoods—			
Million yds.	4,269	4,269	4,871
Million lbs.†	920	981	1,193
Yarn—			
Million lbs.	1,303	1,349	1,660

† Includes knitted goods.

Electric Energy Generated and Sold in India

	Generated Units. (in millions)	Sold Units. (in millions)
1939-40 total	2,189.3	1,837.7
1940-41 ,, ...	2,453.4	2,057.3
1941-42 ,, ...	2,828.1	2,401.6
1942-43 ,, ...	2,854.6	2,414.6
1943-44 ,, ...	3,126.3	2,649.0

Electrical energy sold during the years for which figures are available has risen by nearly 50 per cent.

Cotton Textiles Industry: Among the Indian industries the cotton textiles occupy the pride of the place. The industry, which was rather in shallow waters before the war on account of over production and lack of markets abroad, has been in a flourishing state during the war. The production of textiles increased by about 1/7th in the five years of the war. Profits made by the industry have also been phenomenal. So far as the production of the industries are concerned, we find that the output of the cotton piecegoods amounted to 4,269 million yards in 1938-39, declined to 4,013 million yards in 1939-40, rose to 4,269 million yards in 1940-41, 4,494 million yards in 1941-42, declined again to 4,109 million yards in 1942-43. In 1942-43, the production was even less than that of the pre-war year 1938-39. In the year 1943-44 and in all probability in the year 1944-45 however, there has been record output. In the year 1943-44 the production was 4,871 million yards.

Cloth Famine: From the year 1942-43 onwards a cloth famine set in. In that year there was a reduction in the production by 160 million yards over even the 1938-39 figure. As the imports of cotton piecegoods into India were practically negligible, it has been estimated that the total shortage of supply in that year amounted to 800 million yards. On the other hand, the exports of cotton piecegoods from British India rose from 177 million yards in 1938-39 to 819 million yards in 1942-43. The exports increased by 642 million yards. The net shortage to India was, therefore, in the region of 1,400 million yards in 1942-43. There was little relief from hand-loom production which normally comes to about 30 per cent of the total mill production. The prices increased by nearly 325 per cent by the end of December 1942 and by nearly 425 per cent by May 1943 over the prices of August 1939.* Although the situation

*To give instance, the wholesale price of grey dhoties, which was Rs. 1-12-6 per pair in August 1939 rose more than five times and was at Rs. 9 in May 1943, as per the information in Monthly Survey of Business Conditions in India, May 1944.

improved in 1943-44 on account of increased production even then by the middle of 1944 the prices were nearly 300 per cent of what they were in 1938-39, in the open markets and much more in the black market.

The robbing of graveyards for clothes, disrobing of men and women in out of way places for clothes on the plea that the need of the despoilers was greater and minor riotings here and there have been reportd. Stray news has also come that women have committed suicide for want of cloth. Swami Sambudhanand, President of the Ramakrishna Mission in Bombay, after making an extensive tour of the scarcity areas in Bengal stated in July 1943 that "cloth distress has come to its climax in Bengal at this hour. Thousands of men and women, I have seen, cannot go out to attend their usual work outside for want of a piece of cloth to wrap round their loins. Cases of suicide amongst women for want of cloth are not few."

The Government, by the Cotton Textile Control Order issued in June 1943, zoned the country into nine blocks for regulating cloth distribution and into five regions for controlling the movements of raw cotton. They attempted for sometime to encourage the production of what is known as standard cloth. The mills were required to stamp their cloth with the price and date of production from August 1943 onwards and within six months from that date the dealers were required to disgorge the whole of their stocks. The standard cloth was a failure. Although the prices of cloth came down somewhat by the middle of 1944, no real improvement in the situation was effected and, in fact, in some parts of the country and, especially in Bengal, it has been getting worse. In April 1945 the situation having become very acute, the Industry's Committe of the Textile Control Board appointed a Rationalisation and Standardisation Sub-Commitee to make proposals for increasing production.

The main features of that Sub-Committee's proposals are (1) mills are restricted to spin a limited number of

counts according to the number of spindles installed; (2) mills are required to set apart 90 per cent of their looms for the production of 'Utility Cloths' which are specified in paragraph 13 of the report of the Sub-Committee; (3) mills will be required, at the request of the Chairman, to set apart 50 per cent of the maximum capacity in all widths of looms from 48 to 58 inches (both inclusive) for the production of sarees and dhoties; (4) mills are restricted to manufacture at one time not more than three sorts for 100 looms per month which include both 'Utility and non-utility cloths'; and (5) mills are not permitted to change more than one sort for 100 looms per month. The 'Utility cloth' has been stated to be dhoties and sarees, long cloth, shirtings, chadars, sheetings and such other very essential clothing requirements. The Government of India accepted these proposals and the scheme came into operation from 1st June, 1945. It is expected that this rationalisation would enable the total production to increase by 400 million yards and to alleviate the miseries to some extent.

Unless the Government of India are careful and adopt measures for uniform application of their policy, they would encounter the same difficulties, which they did and are still doing so far as their Food Control Orders are concerned. Mr. Krishnaraj Thackersey, Chairman of the Textile Control Board, rightly pointed out on the 21st July, 1945 that it was necessary for the Government of India to bring the provincial control machinery within the jurisdiction of the Textile Commissioner with a view to securing uniform application of distribution policy and administration of control measures in all Provinces and States. Unless that was done, whatever efforts the Board might have made to increase and maintain production, scarcity conditions would continue to prevail inasmuch as in the absence of effective distributive machinery, cloth would not reach the consumers in the manner required.

Jute, Sugar, Paper and Other Industries: The Jute industry appeared to have a boom soon after the com-

mencement of the war. The looms were unsealed, there was rise in prices, double shifts were worked and the mills even sought exemption from the operation of Factories Act. Jute manufactures rose from 1,221,000 tons in 1938-39 to 1,280,000 tons in 1939-40, but declined to 1,109,000 tons in 1940-41. The production improved to 1,260,000 tons in 1941-42 but again declined to 1,053,000 tons in 1942-43 and 947,000 tons in 1943-44. The jute industry suffered heavily on account of coal shortage in 1943 and in 1944 as well. In fact, a few mills had also to close down for want of coal.

Sugar industry like the cotton textile industry has done very well during the war years. The capture of Philippines and Java by the Japanese greatly helped the industry to further consolidate its position and the Indian industry was the biggest source of supply to the Allied nations and the neighbouring countries like Iraq and Iran. The retail price of sugar in 1945 is nearly three times the pre-war price. When it is compared with the price of last war, when it was about Rs. 21/- per maund at one time, the hardship may not seem to be so very grave. The sugar rationing, which has been adopted over a wide area of the country since 1944 has, on the whole, been working with better success than the other rationing.

The imports of paper, paste-board, stationery, etc., came down from Rs. 4.5 crores in 1940-41 to Rs. 4 crores in 1941-42 and to Rs. 2.2 crores in 1942-43. The reduced imports and increased demands naturally led to the growth of the industry. The production of Indian paper rose from 1,184,000 cwts. in 1938-39 to 1,400,000 cwts. in 1939-40, 1,753,000 cwts. in 1940-41, 1,870,000 cwts. in 1941-42 and 1,821,000 cwts. in 1942-43. It declined, however, to 1,486,000 cwts. in 1943-44. The abnormal demands and the fall in production in 1943-44 led to paper famine. Severe control and rationing of paper was adopted by the Government. The Government took over 90 per cent in the first instance, of the production, reduced it to 70 per cent of the total pro-

duction and since January 1945 are taking 60 per cent of the total output and releasing 40 per cent to civilian consumers. From April 1945, there has been a little more relaxation. On the whole, the Government taking over a large percentage of the production has ended in great hardship to the public and led to wide abuses in black market.

Iron and Steel industry is one of the key industries and has done very well during the war-time. The production of finished steel in 1941-42 rose by 50 per cent of the pre-war production and in all probability has been doubled by 1943. The Iron and Steel Control Order of August 1941 imposed strict control on the civilian consumption and there were practically no free markets in iron and steel. There has been a severe rationing of all iron and steel products.

Cement, tea and leather industries have also done every well during the war years. Some of the small-scale and cottage industries, on account of the orders placed by Government, improved their position. Many other industries, like paints and varnishes, glass, soap, timber, drugs and chemicals have also shown progress. Unfortunately, we have no figures of their growth during the war-time. In the case of sulphuric acid, we are informed, that its production has risen from 26,000 tons in pre-war years to 93,000 tons now.*

In the case of caustic soda, the Indian output is said to be 10,000 tons per annum. In no way does it suffice the country's needs, which are said to be 50,000 tons per annum. Similarly although the production of bleaching powder and chlorine is said to have increased and is estimated to be 4,200 tons, it falls short of the country's requirements, which are put at 11,000 tons per annum. In all these cases the progress has been entirely due to war and the production has been very largely taken by Government for the manufacture of munitions and other military requirements.

*It should be noted that it is even now short of the country's requirements, which are estimated at 115,000 tons.

Prices of Shares: The reduced supply on account of decline in imports and in some cases even by reduced production in the country itself followed by heavily increased demand by military and other authorities has meant a boom of unprecedented nature to Indian industries. The effects of inflation have also been super-imposed on these and one can very well understand huge rise in prices of the industrial products sold in the market. The index number of wholesale prices of manufactured articles (August 1939=100) was 131.5 in 1939-40; after declining to 119.8 in 1940-41, it steadily rose to 154.5 in 1941-42, 190.4 in 1942-43, 251.7 in 1943-44 and 258.3 in 1944-45 and in March 1945, stood at 253.7. These index numbers are for open market quotations. In fact, the prices have been several times more on account of the wide-spread prevalence of the black market in the country. The price of most manufactured commodities, if not all, especially after 1942 July has been at least four times of what it was before the war. The prices of industrial shares, as is to be expected, shot up in the country. The figures on the next page would be of interest:—

This index number of cotton securities rose from 59.4 in August 1934 to as much as 218.9 in January 1944, and was at 188.1 in December 1944. Coal securities rose from 113.7 in August 1939 to 315.6 in December 1944. Iron and Steel rose from 369.5 to 614.0 by December 1939 itself and has since then marked a decline upto June 1942, went up again as high as 606.5 in July 1944 and was 599.2 in December 1944. Tea securities were at 57.8 in August 1939, went upto 126.7 in January 1944 and were 123.9 in December of the same year. Sugar rose from 74.7 to 248.4 in July 1944 and stood at 212.0 in December of the same year. Cement rose from 149.6 in August 1939 to 311.5 in December 1944. Paper securities have risen from 174 in August 1939 to 408 by December 1939 itself and then declined to 265.6 in July 1940, recovered again and rose steadily to 524.5 in January

Variable Yield Securities Index for certain Industries

(1927-28 = 100)

(Prepared in the Office of the Economic Adviser to the Government of India)

	Cotton (21 shares)	Jute (20 shares)	Coal (13 shares)	Iron and Steel (3 shares)	Tea (19 shares)	Sugar (3 shares)	Cement (1 share)	Paper (2 shares)
August 1939	59.4	47.7	131.7	369.5	57.8	74.7	149.6	174.0
January 1940	84.4	61.8	163.2	534.7	72.8	100.0	150.3	363.1
August 1940	74.2	55.6	138.4	440.0	64.9	77.0	141.2	266.3
January 1941	90.2	53.4	150.4	514.6	68.8	90.7	171.0	288.9
August 1941	109.7	59.8	152.1	530.4	75.9	100.2	189.1	315.9
January 1942	114.3	52.2	152.2	448.7	82.1	117.9	199.5	322.8
August 1942	123.8	49.6	147.0	422.2	79.4	133.6	211.1	317.1
January 1943	179.7	57.2	173.1	492.2	93.0	156.1	272.3	410.9
August 1943	191.0	62.3	205.4	528.7	112.1	205.5	268.2	441.1
January 1944	218.9	73.1	264.8	594.8	126.7	231.5	275.4	524.5
August ,,	176.0	78.4	293.5	574.1	117.1	233.5	292.7	507.7
September ,,	168.6	79.3	285.8	563.8	112.5	218.4	274.8	489.5
October ,,	175.9	79.7	288.5	557.9	115.5	218.0	301.1	494.7
November ,,	184.4	78.5	286.9	584.3	120.6	210.0	310.5	499.7
December ,,	188.1	81.3	315.6	599.2	123.9	212.0	311.5	506.9
January 1945	....	....	....	....	....	....	....	....
February ,,	....	....	....	....	....	....	....	....
March ,,	....	....	....	....	....	....	....	....

1944 and in December of the same year stood at 506.9. Of all these shares, jute probably did not show that spectacular rise. The jute securities rose from 47.7 in August 1939 to 70.5 in November of the same year, reached its peak at 81.6 in June 1944 and in December of the same year were at 81.3.

The following are the index numbers of security prices in India:—

Index Numbers of Security Prices in India

	Security Prices* (1927-28 = 100)		
	Government Securities	Industrial Securities	
		Fixed Yield	Variable Yield
1939-40 ..	114.1	135.3	111.7
1940-41 ..	114.6	147.5	117.4
1941-42 ..	115.9	155.9	129.0
1942-43 ..	115.0	144.9	138.6
1943-44 ..	117.2	164.3	182.2
1944-45 ..	118.0	176.2	197.3
January 1945 ..	117.8	180.2	200.8
February 1945 ..	117.7	180.5	204.6
March 1945 ..	117.6	181.2	199.9

The index number of Government securities have shown very little rise. The maximum rise has been 3.9 between 1939-40 and 1944-45. The fixed yield industrial securities have shown in the same period a rise of 40.9 and the variable securities during the same period a rise of 85.6. In January, February and March 1945, these shares make even a better showing.

* Source: Office of the Economic Adviser to the Government of India.

Comparative Indices of Bonds and Shares: The following is comparative index number of the market value of industrial shares:—

A Comparative Statement of Index Numbers of the Market Value of Industrial Shares

(Jan.—June 1939=100[7])

Country.	Shares		Average			1944					
			1941	1942	1943	July	Aug.	Sept.	Oct.	Nov.	Dec.
Germany ...	(a)	213	147	154	157	158	...	...	...	...	...
Japan	(a)5	30	97	107	102	...	...	...	...	...	...
U.S.A.	(b)1	354	87	77	102	115	113	111	114	113	...
United Kingdom	(d)2	85	85	95	114	132	133	127	128	130	...
	(e)3	96[13]	87	103	124	143	139	137	139	...	...
Canada	(a)	69[8]	70	67	86	91	90	88	89	89	...
Australia ...	(e)	23	104	94	112	113	113	113	...	...	...
India	(e)6.7	9	142	151	197	248	243	...	...	...	...

(*) Conpiled from the Monthly Bulletin of Statistics of the League of Nations.

Sources : Government or Central Bank Authorities, unless otherwise indicated.

(a) Monthly average of daily rates.

(b) Monthly average of rates on one day in the week.

(d) 15th or middle of month.

(e) Last week or end of month.

1 Standard and Poor's Statistics Co.

2 London and Cambridge Economic Service.

3 The Investors' Chronicle and money Market Service.

5 Oriental Economist.

6 Capital,

7 Base periods other than Jan.-June 1936: India, August 1939.

8 68 shares up to December 1943.

9 Including shipping shares.

While the Indian industrial shares, according to these figures, have risen from 142 in 1941 to 243 in August 1944, there has been no other country with a similar rise. In totalitarian countries like Germany and Japan and in democratic countries like United Kingdom and United States of America and in democratic Commonwealths like Australia and Canada, the prices of shares have shown only a reasonable increase as against a very high rise in India. The Governments concerned have seen to it that the effect of inflation is not felt in the market and have introduced a controlled economy, as it were in their respective countries.

The following are the index numbers of Government bonds and shares prices in India, U.K., and U.S.A.:—

Indices of Government Bonds and Share Prices in India, U. K. and U. S. A.†

	1938	1942	1943	1944
Govt. Bonds :				
India	121.6	113.8	116.7*	118.0*
U. K.	121.8	127.3	127.8	127.4*
U. S. A.	111.1	118.3	120.3	120.9*
Common Stocks :				
India	106.4	129.9	172.4*	196.2*
U. K.	80.8	75.3	84.5	88.5*
U. S. A.	88.2	69.4	91.9	99.4*

The Governments in U.K. and U.S.A. being broad-based on the will of the people, it is but natural that the people of those countries have a greater faith and confidence in their Government. In India, the common stocks have risen by 89.8 between 1944 and 1938 as against a rise of 7.7 in U.K. and 11.2 in the U.S.A. during a similar period

Profits: The profits of the companies have soared up beyond expectations. The following are figures upto 1942:—

* Estimate of the financial News

† The Financial News, 19th May, 1945.

Economic Adviser's Index Number of Profits

(Base : 1928=100)

Discription	1939 Number of companies	1939 Profits (Rs. 000)	1939 Chain index.	1940 Number of companies.	1940 Profits (Rs. 000)	1940 Chain index	1941 Number of companies.	1941 Profits (Rs. 000)	1941 Chain index	1942 Number of companies	1942 Profits (Rs. 000.)	1942 Chain index
1. Cotton Mills ...	61	1,98,64 2,67,85*	154.6	63	2,86,95 2,01,38*	220.1	60	6,81,35 3,06,63*	489.1	75	11,09,78 7,13,53*	760.7
2. Jute Mills	60	1,15,96 —83,44*	13.6	60	4,16,48 1,15,96*	48.8	61	3,98,68 4,15,74*	46.8	61	4,22,84 4,02,24*	49.2
3. Tea	127	1,02,56 78,78*	96.2	127	1,00,86 1,01,75*	95.4	127	1,49,41 1,00,86*	141.3	128	2,33,06 1,50,00*	219.5
4. Iron and Steel ...	4	4,28,04 4,68,53*	289.3	4	4,41,90 4,28,04*	300.7	4	5,73,10 4,44,90*	387.3	3	5,91,68 5,68,16	403.3
5. Sugar	26	81,01 71,21*	179.4	27	84,37 84,10*	180.0	28	1,19,78 87,19*	247.3	28	1,06,46 1,19,78*	219.8
6. Paper	4	30,39 34,45*	151.8	8	71,72 30,35*	358.7	8	86,41 71,72*	432.2	8	97,64 86,41*	488.4
7. Coal	55	1,19,00 1,21,77*	139.1	55	1,19,93 1,19,00*	140.2	55	98,29 1,19,93*	114.9	53	94,00 97,95*	110.3

Figures marked (*) are the profits for the same companies in the preceding year.

The following are the figures of industrial profits in India with estimated figures for recent years:—

Industrial Profits in India (A)
(Base : 1928 = 100)

Industry.	Depression period 1929 to 1931*	1938*	1942*	1943†	1944†
All Industries	27.8	68.1	169.4	188	219
Cotton mills	37.9	208.3	760.7	1,800	2,800
Jute mills	8.7	−9.8	49.2	43	44
Tea	−19.8	73.9	219.5	384	248
Coal	75.0	142.4	110.3	110	177
Iron and Steel	18.6	316.7	403.3	328	372
Sugar	79.6	157.7	219.8	308	371
Paper	86.6	172.1	488.4	..	..

The cotton mills show a progress of more than 1,300 per cent. Jute mills from a loss in 1938, went up to 49.2 in 1942 and stood at 43 in 1943 and 44 in 1944. Similarly, coal, iron and steel, sugar and paper showed a remarkable progress in regard to profits.‡

Munition Industries during the War: The most striking progress in the industrial field has been in regard to munitions production. The Government did their best to make up the lee-way and start in right earnest. Before the war there were only a few ordnance factories constituting the specialised Munitions Industry in India. They were producing a good many things essential for armies. But with the change in the technique of warfare it was necessary to bring about changes in the character of their production. The ammunition industry in India did not really begin its tremendous expansion until France fell and the Commonwealth countries found themselves standing alone to face

* Economic Adviser's figures.

† " Rough estimate " of Financial News.

(A) The " Financial News ", 19th May, 1945.

‡ Chain Index of Profits prepared by the Economic Adviser to the Government of India is available only upto 1942. Taking the Base 1928 = 100, the chain index of profits rose from 154.6 in 1939 to 220.1 in 1940, 489.1 in 1941 and 760.7 in 1942. It is a justifiable assumption that these indices would be even more for the later years.

a ruthless, well-armed enemy. India could no longer depend on Britain who herself, with her factories subjected to continuous bombing, was forced to look to other units for vitally needed supplies. Shipping difficulties experienced in the first few years of war and the Japanese advance to the borders of India, were some of the other factors which goaded the planning and expansion of ammunition industry.

The implementation of the Chatfield Plan started just before the war broke out. The Plan was evolved to expand all existing Ordnance Factories and to instal new types of machine-tools necessary for the production of all types of modern weapons and ammunition. It also provided for the erection of a new factory for the manufacture of high explosives including a plant for the production of Toulene and the expansion of the Cordite Factory. Post-Chatfield measures comprised a number of projects introduced subsequently. Most important of these was a project for the expansion of India's production of small arms ammunition by 12 million rounds per month. Expansions at the Cordite Factory, Metal and Steel Factory and Ammunition Factories were also planned under these measures.

Soon after the outbreak of war it was realised that India had to play a larger part in the production of armaments than had been anticipated under the Chatfield Plan. In 1940 the Ministry of Supply Mission led by Sir Alexander Roger came from U.K. to examine the possibility of further expansion of armament production in India. To meet H.M.G.'s requirements for expansion of armament production in India, the Mission accepted plans prepared by the authorities in India in consultation with the Mission's experts, for 21 new projects, e.g., of alloy steels for guns and small arms, gun forgings, bayonets, light machine-guns, gun carriages, shells, fuses and primera, high explosives, Cordite, Toluene and motor Benzol.

With the entry of Japan came the Transplantation Plan which involved the building of five new Ordnance

Factories and the expansion of two of the factories under the Eastern Group Plan. It comprised a number of new projects for further expansion of India's capacity for the production and maintenance of armaments. The lease-lend arrangements were also initiated and the American Mission known also as the Grady's Mission came to this country to further help the military production. Under the Ordnance Factory Expansion Plan a new series of projects was started. These included projects for the maintenance of imported artillery equipment, maintenance of aircraft instruments, production of packages, production of higher type respirators, etc.

The number of Ordnance Factories in operation in India in the sixth year of the war has been three times the number of such factories at the commencement of the war. Large plants are operating for the manufacture of Toluene, Acetono and the various acids. There are plants for nitric acid, for concentration of sulphuric acid, and for Cordite. It is claimed that India has been well on the way of attaining self-sufficiency in the manufacture of high explosives. T.N.T. and the Composition Exploding which is described as 50 per cent more sensitive than T.N.T., have been under manufacture.

On the Engineering side a new steel works for the production of alloy steels was brought into production, and new rolling mills were installed. A 2,000-ton forging press for guns, including anti-aircraft guns, has been in operation. New types of shells, including various armour-piercing anti-tank types, have been produced. A plant has also been installed for the manufacture of light machine guns. Steel Factories, specially expanded for the purpose, have provided steel suitable for the latest type of field-gun and barrels, ammunition and bombs.

It is stated that the ordnance factories manufacture everything hurled at the enemy, by hand, rifle, mortar, and gun; dropped on his head from the air; thrown at his submarines from the decks of ships; or left under a few

inches of dirt to smash the tracks of his tanks. They produced machine guns, modern field guns, bombs, mines and depth charges. They turned out various new types of small arms ammunition, gun ammunition and explosives, shells, anti-tanks mines, anti-personnel mines and smoke generators, two types of howitzers, gun carriages and trailers, light machine-guns, shells and propellants. The civil workshops maintained a constant output of the many components which make up these projectiles. A number of ancillary industries which were mobilised and expanded turned out thousands of tons of steel, brass and other metals required to make the projectiles—the paints and lacquers to finish them, containers to pack them in, and explosives of various types which give the projectiles their devastating punch.

India's wartime output of ammunition is said to have doubled, trebled and quadrupled and increased, under certain items, 30 to 50 times. Some of the striking increases recently recorded were:—

Rifles: 11 times pre-war output; Bayonets: 20 times pre-war output; small arms ammunition: some 4 times pre-war output; guns and carriages: 20 times pre-war output; guns and mortar ammunition: 35 times pre-war output; grenades, mines, bombs, pyrotechnics stores: most of these were not made in India before the war; and instruments: 50 times pre-war output.

Among the more important items of the armament stores produced in quantity are six-pounder gun-carriages, tripods for light machine-guns, anti-aircraft guns sites, binoculars, stereoscopes, clino-meters and telescopes.

Some idea of the magnitude of the expansion may be had from the strength of labour force employed in Ordnance Factories. From 15,000 in 1939 the figure rose to 100,000 in 1944—a six-fold expansion, excluding the large numbers of staff and workmen employed on the production of components for armament stores in Railway and trade workshops. Factory training schemes were launched to

train workers for skilled jobs, and have turned out about 50,000 workers, managers, supervisors and tool setters, highly-skilled and semi-skilled artisans.

The Ordnance Factories were reinforced by railway and trade workshops in the manufacture of components. The production of 4.5 inch howitzer and 25-pounder shell forgings was established in railway workshops. Order for no less than 437 items normally manufactured in Ordnance Factories were placed on trade and railway workshops—some of the new items being empty shells, empty grenades, fused mines, A.P. shots, fused components, bayonets, release boxes, pontoon ends and centres. At the outset of the war there were about 600 workshops known to be available. The Director-General of Munitions Production has been using 1500 Engineering Workshops—840 for general engineering items, over 300 for small items, and 345 plus 20 railway workshops for munition components. The attainment of high figures of finished ammunition in Ordnance Factories has been greatly assisted by the development of capacity in trade and railway workshops.

Volume of Industrial Production during the War: We have no definite and reliable information or statistics concerning industrial production than those given for the various industries by the Government of India or by the respective industries, as in the case of cotton textiles, jute, etc. The Capital Index of Industrial Activity, which has for its base the year 1935, shows that during the war years, the index numbers stood at 129.6 in November 1941, declined to 96.3 in September 1943, and was at 126.6 in October 1944.

The following indices concerning the volume of industrial production have been constructed by Dr. L. C. Jain on the basis of the information supplied in the Monthly Survey of Business Conditions in India:—

	1938—39	1939—40	1940—41	1941—42	1942—43	1943—44	Average
1. Iron and Steel ..	.. 100	110*	125*	150*	200*	200*	146
2. Cotton Manufactures	.. 100	94	100	153	92	113	110
3. Jute Manufactures	.. 100	106	91	103	85	76	92
4. Sugar (cane factories)	.. 100	191	168	120	163	184	165
5. Paper	.. 100	118	149	159	112	126	133
6. Electrical energy generated	.. 100	109	115	135	138	147	129
							129

Dr. L. C. Jain's figures help us to understand that the maximum increase in production has occurred in the iron and steel and sugar. The average for all the industries, it has to be noted, works out only at 29 per cent.

Lacunae in Industrial field: The worst features of India's development is its lack of balance. The industries that have come into existence during the war time and those that have expanded during the war-time, have been mainly the development of munitions and allied industries. Munitions and ordnance factories have to be developed if any country has to wage a successful war, but unfortunately the development and expansion of the industries in the war-time have all been solely with a view to catering to the immediate war needs and with no thought at all for the peace that has followed.

It is mainly such industries producing consumers' goods, as cotton textiles, sugar, paper, cement, leather, etc., that have shown some progress during the war. The basic industries for the manufacture of automobiles, locomotives, aeroplanes, ships, machine tools have all been practically left out due to the lack of a systematic industrial policy as

* Provisional.

*The Report on Currency and Finance for the year 1944-45 states, so far as India was concerned, that "The stimulus of war has led to some industrial advance in the country and expansion of existing capacity in many industries, but the over-all measures of industrialisation secured and the durable gain of productive capacity have been small relatively to many other Empire Countries."

well as hostility on the part of the Government.* Such an attitude has made the public infer that the Government were anxious deliberately to avoid their establishment in India.† The Supply Department as well as the Indian Stores Department always interested themselves in the production of only those commodities, which were immediately required by military and which would be difficult if not impossible, to obtain from other countries.‡

Government's demands on Indian Industries: Government's demands on industries such as are already established have been particularly heavy and not unnaturally led to the growth and prosperity of those industries to the extent it has occurred during the war-time. The Government of India made purchases not only on their own behalf but also on behalf of His Majesty's Government and the Allied Nations. Supply Department purchased upto the end of December 1941, Rs. 230 crores worth of Indian production. Out of these engineering, hardware, miscellaneous, accounted for 98 crores of rupees, cotton textile Rs. 50 crores, woollen materials Rs. 18 crores, other textiles Rs. 29 crores, foodstuffs Rs. 16 crores, leather materials Rs. 10 crores and timber and woodware Rs. 9 crores. The value of the orders placed by the Supply Department amounted to Rs. 256 crores in 1942-43, Rs. 162 crores in 1943-44 and Rs. 76 crores for the first seven months of 1944-45. The reduction in the later years was due partly to transfer of responsibilities for the procurement of textiles and foodstuffs to the Departments of Civil Supply and Food and also to a falling of demands in certain directions.§ The purchases made by the

* The establishment of the assembling plant at Bangalore for aeroplanes and the permission granted late in the day in 1944 for forming companies to manufacture motor cars does not affect this argument.

† It has been stated that a few engineering firms applied for the manufacture of tools for use in their own factories and that Government was nervous to grant licences on the ground that there might be over-production of machine tools in the country.

‡ The activity of the capital market as well as figures supplied concerning the growth of joint-stock companies in India also prove that heavy industries or for the matter of that even many large-scale industries have not come into existence during the war.

§ Finance Member's Budget Speech 1945-46.

Chief Controller of Purchase (Munitions) in India amounted to Rs. 13 crores in 1940, Rs. 38 crores in 1941 and over Rs. 52 crores in 1942. We have no later figures. We are informed that the value of contracts placed in India by the Indian Stores Department, so far as indigenous goods are concerned, amounted to Rs. 21 crores in 1939-40, Rs. 79 crores in 1940-41, Rs. 184 crores in 1941-42 and Rs. 246 crores in 1942-43. The value of commodities graded under Agmark purchased by Government amounted in 1939-40 to Rs. 103 lakhs, in 1940-41 to Rs. 147 lakhs, in 1941-42 to Rs. 242 lakhs and in 1942-43 to Rs. 549 lakhs.

One of the worst features during this war has been the sheer inability of Government to take into consideration and their lack of foresight as to what would happen to the economy of the country on account of the heavy demands made by Government themselves. Prices of all manufactured commodities rose to very great heights and the general public both on account of the scarcity and the consequential rise in prices were put to great hardships. Control of prices and rationing, wherever it was exercised, came late and was not efficient on account of the lack of co-operation between various Provincial Governments, bad transport arrangements and other factors. It may be that there were no voluntary and conscious attempts made by the people of the country as in the case of the United Kingdom towards reducing their requirements. The force of circumstances resulting from scarcity of goods, high prices, etc., however, resulted in their going without many of the commodities, which they were accustomed to and suffering as much if not more than the people in belligerent countries.

Failure to utilise small-scale industries: The Government, in fact, merely diverted the industrial production from civilian consumption. They could have easened the hardships to civilians as well as satisfied the military demand to some extent if only they had organised India's small-scale and cottage industries. On the other hand, Government merely contented themselves by placing

orders worth a few crores of rupees with the small-scale and cottage industries. If only these have been organised after the fashion of the indutsiral co-operative movement in China, much benefit would have accrued to industries and the Government would also have benefited simultaneously. In some instance, as in the case of All-India Spinners' Association and the All-India Village Industries' Association, the Government suspecting these bodies of political bias had little or nothing to do with them. These institutions with their experience in cottage industries, if they had only been taken into confidence by the Government and encouraged, would have to a large extent reduced the miseries of the civilians. The importance of cottage industries in the economy of the country has been sadly minimised by the Government. As against 1,002,000 people engaged in textiles (all textile industries) even in the year 1943, it could be safely estimated that there are at least 10 million handloom weavers spread all over the country. Out of the 15 million workers, reported as industrial workers, according to census of 1931, only 1½ million were employed in factories, the rest being all engaged in cottage industries. It is unfortunate that the Government of India should have ignored and failed to organise these industries. The Government of India evidently did not realise fully, if at all they realised, that small-scale industries have a niche in the economic structure of even the highly industrialised countries, like Sweden, Switzerland and Japan. In Japan, large-scale industries account for only 26 per cent of the various groups of industrial establishments, the medium sized industries for 35 per cent, while the small industries and the smallest in the rung account for 29 per cent and 10 per cent respectively.* The small units producc consumers goods as well as machines and parts of machinery. It is pointed out that only 34 per cent of the ma-

*Gunther Stein's "Made in Japan."

chinery produced in Japan is manufactured in bigger factories.*

Board of Scientific and Industrial Research: One of the and probably the only tangible step taken during the wartime for helping industries, both from the immediate and long-term point of view, has been the establishment of the Board of Scientific and Industrial Research. Until this Board was set up, there was practically no scientific research on any appreciable scale for the industrial development. The Board has engaged itself with a number of important projects such as manufacture of plastic materials, utilisation of molasses, preparation of dye-stuffs, manufacture of drugs, the possibilities for internal combustion engines, etc. After giving the credit due to the Government, it has still to be maintained that India needs not only research, but the establishment of industries, especially heavy industries, and so far as this matter is concerned, the Government have been totally indifferent during the war.†

During the war, the imports of spare parts and fresh machinery were reduced, with considerable damage to the plants. Many plants must have now become obsolete partly on account of the technical advance all over the world and largely also because of the strain imposed on the machinery. The end of the war sees the industrialists saddled with a heavy bill towards the repairs and replacements of the machine parts. While agreeing that the shipping diffi-

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* Prof. Allen in his "Japanese Industry: Its Recent Development and Present Condition" writes :—

> "We may conclude that the predominance of the small technical unit in many of Japan's industries is not an indication of the economic weakness of the country, but that it represents an appropriate adaptation of industrial methods to the economic conditions existing there....In that country, capital is relatively scarce and dear, while industrial labour is relatively plentiful and cheap." In India too, conditions are similar and the cottage industries legitimately should occupy the position which they do in Japan."

† The "Statesman" on the 13th January 1942, pertinently commented in connection with the activities of this Board that "the public welcome research, but without any active policy of industrial development associated with it, mere research looks like diagnosis of the disease without any intention of applying medicine to the patient."

culties have been real it has to be pointed out that it did not prevent countries like Canada or Australia and even the Union of South Africa from importing and replacing their machineries and also starting new industries. The inferior status of the Government of India probably accounts for the failure to make their demands felt on the British and the other Allied Governments. That coupled with the *laissez faire* doctrine adopted by the Government throughout this war has repeated the story of the last war. India missed the bus of industrialisation in the first European war and she has been made to miss the bus again in the second war on account of the indifference of the Government if not positive hostility as in the case of establishment of aeroplane and automobile industries and shipping yards.*

Comparison of Industrial progress with other countries: The war has helped agircultural countries like Canada and Australia and even the industrially advanced countries like the U.K. and U.S.A. enormously in the path of industrialisation. That is reflected in the standard of living that has risen in all those countries. There has been expansion in almost all industrial fields in Australia, Canada and the Union of South Africa. In Australia chemicals, wood-pulp industries, cotton spinning and weaving, fabrications of metals and manufacture of processed foods have all been expanded. It is stated that in the chemical field alone, Australia exported "enough hyoscyine—a war-time development—to supply a dose to every second person in the world." It is stated that "although the intensive organisation of Australia's munitions programme did not begin until after Dunkirk, Australia had virtually completed the major stage of her munitions programme by the end of May, 1943. Later there was heavy emphasis on the building of an invasion fleet to carry the war to the enemy. Deli-

*We may recall in this connection the views expressed by Mr. Guy Lacock, the Representative of the British Board of Trade to the Eastern Group Supply Conference. He is reported to have stated, according to the British Press, that "on the whole post-war interests in India of British Industry are not likely to suffer so greatly as was at one time expected."

veries of small craft to Australian and Allied services already to amount to more than 20,000 crafts, with firm orders in hand for considerably more than 30,000 and prospective orders for more than 10,000. Thus the Australian contribution to the invasion fleet in the Pacific may be 60,000 serviceable crafts of all shapes and sizes. From the inception of a co-ordinated plan of repair and maintenance of naval and merchant ships in August 1942 to 31st December 1944, 8,733 Australian and Allied merchant ships of a total of 36,671,280 tons have been undergoing repairs and heavy maintenance in Australian dockyards. In the same period, 1,243 merchant ships of a total of 4,191,333 tons have been dry docked and slipped. More than 150 vessels have been built in Australia for the Royal Australian Navy. Of 60 corvettes built in Australia, 20 have been for the Royal Navy, four for the Royal Indian Navy and 36 for the Royal Australian building of merchant ships. Seven 9,000-ton standard merchant vessels have been completed. Approximately half the number of wooden merchant ships ordered by the services in several States have been completed and some are doing useful work in operational areas. The Captain Cook Dock at Sydney, the largest single achievement in Australian engineering history, is now in commission and is being used by the Royal Navy. It has already cost £8,000,000. Work commenced in July, 1940."*

We are informed that "Australian-made aeroplanes have played a major part in the Pacific campaigns. The vast engineering shops necessary for their manufacture, plus the fact that Australia produces the world's cheapest steel, will provide the post-war basis for revolutionary expansion of the engineering industries.

Australia is building her own ships. More than 2,000 ships are on the Australian register. Since April 1943, orders for merchant ships stand at £16,000,000 and those for smaller craft at £24,000,000. Completion of the £9,000,000 Captain Cook Graving Dock in Sydney recently

* "Commerce" Victory in Europe Supplement.

means that the port can now handle the biggest types of ship repair and overhaul."*

While the total industrial production in India could, by no stretch of imagination, be said to exceed 30 per cent over the pre-war level, the progress made in U.K., U.S.A., etc., has been simply phenomenal. In Canada, the monthly average index number of general industrial production was 168 by 1941, it rose to 216 in 1942, 259 in 1943, and was ranging between 246 to 261 in 1944. Index number of iron and steel production rose from 273 in 1941 to 456 in 1942 and 593 in 1943 and was ranging between 575 and 608 in 1944. In the United States of America, the index number of general industrial production was 149 in 1941, 184 in 1942, 221 in 1943 and has been ranging between 212 and 224 in 1944. Durable industrial manufactures show even further progress. They rose from 184 in 1941 to 330 in 1943 and have been ranging between 314 and 339 in 1944. For production of machines, the monthly average index number rose from 213 in 1941 to 428 in 1943 and has been ranging between 413 and 445 in 1944. In all these countries it has already been noted, while industries have expanded, the profits have been kept low and the civilians' hardships in regard to their requirements minimised to the greatest extent possible. Their Governments broad-based on the will of their people and being representative in character they could devote themselves to fighting the war successfully as well as attend to the economic improvement of their people.

Effects of war-time taxation on industries: In spite of huge profits made during the war-time, it is a moot point whether the Indian industrialists would have sufficient resources left at their disposal for the expansion of industries during the present post-war period. The tax system has been so devised that much of the excess profits has been transferred from the pockets of the industrialists to the Government. The Federation of Indian Chambers of Commerce and Industry remarked that the method of taxation

* "Commerce" Victory in Europe Supplement.

in the country is such that it is not in the economic interest of the country and it would hold back the industrial development in the post-war period if suitable changes are not made.* Sir Shri Ram gave the following set of figures in March 1941 at the Annual Meeting of the Federation of Indian Chambers of Commerce and Industry:—

The Effects of War Taxation on Profits

E. P. T. @ $66\frac{2}{3}\%$; Income Tax @ $2\frac{1}{2}$ annas and Super Tax @ one anna in the rupees ; and Surcharge @ $\frac{1}{3}$

Pre-war (standard) Profits. (1)	Current (war) Profits. (2)	Excess profits (3)	Excess profits tax (4)	Balance (3-4) (5)	Additional Income and Super tax on (5) 4as. 8p. per rupee (6)	Addtional Income and Super tax on (1) 1a. 2p. per rupee (7)	Additional Income and Super tax (6+7) (8)	Net Additional profits (5−8) (9)	Percent of (9) to (1) (10)
9,00,000	11,25,000	2,25,000	1,50,000	75,000	21,875	65,625	87,500	−12,500	− 1.4
	13,50,000	4,50,000	3,00,000	1,50,000	43,750	65,625	1,09,375	+ 40,625	+ 4.5
	15,75,000	6,75,000	4,50,000	2,25,000	65,625	65,625	1,31,250	+ 93,750	+10.4
	18,00,000	9,00,000	6,00,000	3,00,000	87,500	65,625	1,53,125	+1,46,875	+16.3

The results then are as follows :

Increase in taxable profits.	Real increase of net profits.
25%	−1.4% (Deficiency)
30.88%	nil
50%	4.5
75%	10.4
100%	16.3

Since 1941, the burden of taxation has risen by far higher with corresponding reduction in the margin even for very big industrialists.

In the appendix attached to the Explanatory Memorandum of the Budget of the Governor-General-in Council for the year 1944-45, it is found that, even after deduction of all of maximum allowances, the taxation

*The Federation's communication to the Finance Department Government of India, in November, 1943.

rises steeply on all incomes above Rs. 50,000, per annum. The present day income taken by the Government by way of direct taxation excluding the E.P.T. amounts to 30.7 per cent for Rs. 50,000, 46.7 per cent for Rs. 1,00,000, 58.9 per cent for Rs. 2,00,000, 65.8 per cent for Rs. 3,00,000, 70.1 per cent for Rs. 4,00,000, 73.2 per cent for incomes of Rs. 5,00,000, 84.3 per cent for incomes of Rs. 10,00,000, 89.8 per cent for incomes of Rs. 20,00,000 and 91.6 per cent for incomes of Rs. 30,00,000. While it is true that about 20 per cent of the Excess Profits Tax plus 2 per cent of interest would be rendered back to the industrialists after the war is over, it is doubtful whether that would even cover the heavy depreciation on machinery and other waste of assets.*

*Dr. L. C. Jain, in his book " Indian Economy during the War" writes, "the Excess Profits Tax, on the one hand, does not take the entire war profits which it should and, on the other, does not ensure sufficient funds to Indian industries for their full and prompt re-equipment as soon as the hostilities come to an end. This has been assured to British industries by the Chancellor of the Exchequer, but the Indian industry, whose need is far greater, is still left to wait and see."

CHAPTER FOUR

REPERCUSSIONS ON INDIA'S FOREIGN TRADE

When the population, size and resources of the country are taken into consideration, India's share of the international trade is small. In pre-war years, India accounted for only 2.5 per cent of the world's total imports and 3.4 per cent of exports. And yet the foreign trade has exercised a great influence on Indian economy. Considerations of foreign trade have dominated the policy of the Government and to some extent the economists of the country as well as in regard to such important subjects as tariffs, railway rates, currency, etc. The weighted influence is due to the fact that the purchasing power of a certain section of agriculturists, those producing cash crops like cotton, jute, oilseeds, tobacco, etc., has been largely determined by the prices of their crops in the markets of the world.

Effect of war on Foreign Trade: Unlike the last war, the World War II has brought about a great change in India's foreign trade. India lost most of the foreign markets in Europe and with great difficulty trade was carried on between India and the other parts of the world. After the declaration of the Japanese war, India's trade with foreign countries as well as parts of the British Empire, was lost to a very considerable extent and with such countries as Burma and Malaya, Dutch East Indies, Indo-China, etc., trade was wholly lost for the duration of the war. Following are the figures of the total exports, imports and balance of trade:—

Balance of Trade in Merchandise (Private) of British India

(In Rs. lakhs.)

	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	Increase or decrease in 1944-45 as compared with 1943-44
Exports	162,79	203,92	186,88	237,55	187,90	199,03	211,04	+12,01
Re-exports	6,42	9,65	11,81	15,33	7,07	10,96	16,69	+ 5,73
Imports*	151,83	164,76	156.72	172.86	110,44	117,78	200,98	+83,21
Balance of Trade	+17,38	+48,81	+41,97	+80,02	+84,53	+92,21	+ 6,75	−65,46

*Exclusive of the value of railway materials imported direct by the State Railways working under Company management, which was not paid for in the ordinary way and was not therefore taken into account in arriving at the balance of trade.

The first impact of the war is noticeable in these figures. While exports have been increasing—although irregularly --the imports, except for the year 1941-42, have not shown much progress and was much reduced in 1942-43 and 1943-44. The balance of trade on account of the increase in exports has been increasing till 1943-44. In the year 1944-45, the reverse tendency is all of a sudden very marked. With the crippling of Germany and the end of the Japanese war not far off, there were more imports than in the previous years. In fact, the imports in 1944-45 were about 71 per cent more than that of the previous year. The balance of trade, which reached the maximum figure of Rs. 92.21 crores in 1943-44 dwindled to Rs. 26.75 crores 1944-45.

Some caution is, however, necessary in understanding these figures. On account of heavy rise in prices, the quantity imported and exported has declined and mere value by itself is not of much guidance. The quantum of trade in regard to imports and exports has declined. The figures given are only for private merchandise. The exports and imports on Government account do not figure. The omission in regard to the exports is of much more importance as many hundred crores of rupees worth of supplies and stores have been yearly despatched from India. The balance of trade in the same manner does not reveal the full picture. That could be understood only when the huge accumulation of sterling balances in London and the repatriation of sterling debt, which the Government entered into, are taken into consideration.

Composition of Trade during the war: Following are the figures of the main groups of imports and exports:—

Composition of India's Foreign Trade

(In crores of Rs.)

	Food. Drink and Tobacco	Raw Materials and produce and Articles mainly unmanufactured.	Articles wholly or mainly manufactured.
Imports :			
1938-39 ..	24.0	33.2	92.7
1939-40 ..	35.3	36.1	91.8
1940-41 ..	23.8	42.1	89.5
1941-42 ..	27.8	50.0	93.6
1942-43 ..	7.6	51.9	49.5
1943-44 ..	7.1	64.1	44.9
1944-45 ..	18.8	117.3	62.4
Increases in 1944-45 as compared with 1943-44 ..	+11.7	+53.2	+17.5
Exports :			
1938-39 ..	39.1	73.3	47.6
1939-40 ..	39.8	86.0	75.8
1940-41 ..	41.8	61.9	81.1
1941-42 ..	58.6	65.3	109.4
1942-43 ..	47.2	42.8	95.4
1943-44 ..	47.3	44.6	104.8
1944-45 ..	49.6	45.3	112.9
Increase in 1944-45 as compared with 1943-44 ..	+ 2.3	+ 0.7	+ 8.1

The imports of food and drinks have been steadily declining until 1943-44. Raw materials show steady rise. Manufactured articles have declined by more than 50 per cent in 1943-44 and improved only in 1944-45. The shipping position and the confidence of the Allied Nations arising from the crippling of Axis powers has resulted in better imports in 1944-45 for all groups of commodities. 1941-42, 1943-44 and 1944-45 are the record years of exports of manufactured articles from India. The exports of raw materials show a corresponding decrease from 1941-42. The exports of food, drink and tobacco for all the years between 1940-41 and 1944-45 have been higher than that in the pre-war year.

Following are the details of the more important articles imported into and exported from India:—

Main Imports into and Exports from India

(In Lakhs of Rupees)

	1938-39	1941-42	1942-43	1943-44	1944-45	Increase (+) Decrease(—) in 1944-45 as compared with 1943-44
IMPORTS.						
Grain, pulse and flour	13,76	15,02	31	31	8,09	+ 7,78
Sugar	46	1,08	2	....	....	....
Oils, vegetable, mineral and animal	15,62	21,85	27,76	36,48	80,70	+44,27
Cotton, raw and waste	8,51	15,34	15,42	17,53	24,01	+ 6,47
Wool, raw	62	2,77	2,95	4,02	2,10	— 1,92
Chemicals, drugs and medicines	5,62	8,73	5,91	6,86	10,14	+ 3,28
Dyes and Colours	4,06	6,96	5,43	8,29	7,92	— 37
Machinery	19,72	13,73	10,52	11,31	16,29	+ 4,98
Cotton yarns and manufactures	14,15	6,79	1,36	1,33	1,54	+ 21
EXPORTS (including re-exports)						
Grain, pulse and flour	7,80	10,70	6,93	2,31	1,23	— 1,08
Tea	23,29	39,60	31,90	37,19	38,12	+ 93
Oils, vegatable, mineral and animal	1,06	2,68	1,37	83	1,05	+ 22
Seeds	15,10	10,57	10,52	11,15	10,54	— 61
Cotton, raw and waste	24,82	17,90	5,31	7,49	7,70	+ 21
Jute	13,40	10,42	9,02	8,33	7,50	— 83
Hides and skins, raw, tanned or dressed and leather	11,32	16,91	8,14	8,51	8,20	— 31
Cotton yarns and manufactures	7,57	48,00	46,19	42,62	37,60	— 5,02
Jute manufactures	26,26	53,90	36,41	49,47	60,42	+10,95

The imports of grain pulse and flour practically vanished in 1942-43 and 1943-44 and improved to a great extent in 1944-45. Imports of oil—vegetable, mineral and animal—raw cotton, raw wool, chemicals, drugs and medicines, dyes and colours, all show improvement. Machinery, on the other hand, unfortunately has been declining till 1943-44. Only in 1944-45, imports of machinery show an improvement but they were still less than that in 1938-39. Imports of cotton yarn and manufactures have been reduced in 1942-43 and 1943-44 to 1/11th of what they were in 1938-39. On the export side, the exports of grain, pulses and flour were reduced considerably only from 1943-44 after the dog days of Bengal and all-India famine have been able to impress on the Government the necessity for stopping exports. The increase in total exports has been mainly due to heavy exports of tea, hides and skins, jute manufactures and above all of cotton manufactures. India has a monopoly of jute and one can very well understand the increased exports on account of greater need. In regard to cotton manufactures, India was the only country that was in a position to meet the requirements of the Asiatic countries including the British Empire in the East.

Direction of Trade during the War: Figures on the next page show the direction of India's foreign trade during the war years:—

The share of the British Empire, in regard to imports, has risen from 58.1 per cent in 1938-39 to 61.0 per cent in 1941-42, was 55.5 per cent in 1942-43 and declined to 48.2 per cent in 1943-44 and 38.8 per cent in 1944-45. The share of the British Empire, in regard to exports was 52.4 per cent in 1938-39, 62.7 per cent in 1941-42, 67.1 per cent in 1942-43, 64.3 per cent in 1943-44 and 65.3 per cent in 1944-45.

Direction of India's Foreign Trade

(In Rs. lakhs)

	1038—39			1941—42			1942—43			1943—44			1944—45		
	Imports.	Exports (excluding re-exports)	Balance (excluding re-exports)	Imports	Esports (excluding re-exports)	Balance (excluding re-exports.)	Imports.	Exports. (excluding re-exports.)	Balance (excluding re-exports.)	Imports.	Exports (excluding re-exl orts.)	Balance (excluding re-exports.)	Imports.	Exports (excluding re-exports.)	Balance (excluding re-exports.)
I. British Empire.															
1. United Kingdom	46,49	55,51	+ 9,02	36,59	76.85	+40.26	29.56	57.32	+27.76	29,57	60.01	+30.44	40,17	61,71	+21,54
2. Burma ...	24,35	10,03	−14,32	29.47	11,74	−17,73	1,44	......	− 1,44	3	......	− 3	13	......	− 13
3. Ceylon	1,18	5,09	+ 3,91	3,41	9,76	+ 6,35	4,37	14.43	+10.06	3,51	14,34	+10,83	3,72	19,16	+15,44
4. Australia ...	2,41	2.97	+ 56	4,95	12,32	+ 7,37	3,22	16,08	+12,86	4,77	13,24	+ 8,47	10,25	14,67	+ 4,42
5. Canada... ...	91	2,14	+ 1,23	6,73	6,47	− 26	5,53	3,78	− 1,75	2,52	4,87	+ 2,35	3,65	6,90	+ 3,25
6. South Africa ...	35	1,49	+ 1,14	1,24	5,88	+ 4,64	2.25	10,51	+ 8,26	2,59	10,01	+ 7,42	2,98	11,88	+ 8,90
Total British Empire	88,56	85,37	− 3,19	1,05,63	1,48,95	+43,32	61,26	1,25,81	+64.55	56,75	1,28,46	+71,71	78,00	1,37,89	+59,89
Percentage to total trade	58.1	52.4	......	61.0	62.7	......	55.5	67.1	......	48.2	64.3	......	38.8	65.3	......
II. Foreign Countries.															
1. United States	9,78	13.88	+4.10	34,61	46.59	+11,98	19,12	27,80	− 8.68	18,57	40,11	+21,54	50,46	44,79	−5,67
2. Japan	15,41	14.59	− 82	11,78	4,59	− 7,19	3	......	− 3	......	......	......	......	......	......
3. Egypt	2,19	1.23	− 96	4,69	5.98	+ 1,29	8.12	3,68	− 4.44	11.27	2,98	− 8,29	17,38	3,36	−14.02
4. Iran	3,49	78	− 2,71	6,04	1,34	− 4,70	17.75	4.27	−13.48	27,50	1,72	−25,78	49,33	2,74	−46,50
Total Foreign contries	63,77	77,42	+ 13,65	67.64	88,63	+20,99	49,19	61,82	−12.63	61,03	70,57	+ 9,54	1,22,98	73.15	−49,83
Total Trade	1,52,33	1,62,79	−10,46	1,73,27	2,37,58	+64,31	1,10,45	1,87,63	+77.18	1,17,78	1,99,03	+80,35	2,00,98	2,11,05	+10,07

Imports naturally were less on account of the war-time pre-occupations, while our exports to the British Empire countries were more because they were dependent to a greater extent on India during the war years than before on account of proximity as well as the fact that India was the only one source from which they could get their goods regularly. In regard to foreign countries, India lost her trade connections with Germany, Italy, Poland, Czecho-slovakia, Norway, Sweden, Holland, France and Japan and made it up to a certain extent with the British Empire and other countries. The imports from the United States rose from 9.8 crores in 1938-39 to Rs. 34.6 crores in 1941-42. They were reduced in 1942-43 and 1943-44 but were still double the 1938-39 figures. In 1944-45, the imports from the United States showed a very remarkable rise amounting to Rs. 50.5 crores. Our exports to the States rose from Rs. 13.9 crores in 1938-39 to Rs. 46.6 crores in 1941-42 and were reduced in 1942-43 to Rs. 27.8 crores, rose again to Rs. 40 crores and Rs. 44.8 crores in 1943-44 and 1944-45 respectively. In 1944-45 the U.S.A. stands first in the list of the countries from which India imports, in regard to the value of commodities imported. Our imports from Egypt and especially from Iran have increased greatly during the war years and this country is having an unfavourable balance of trade with them. On the whole, our exports to Empire countries rose by 50 per cent in 1943-44 and still more in 1944-45 over 1938-39 figures. With the United Kingdom the balance of trade in favour of this country rose from Rs. 9 crores in 1938-39 to Rs. 40.3 crores in 1941-42, was Rs. 27.8 crores in 1942-43, Rs. 30.4 crores in 1943-44 and Rs. 21.5 crores in 1944-45. The real balance of trade in favour of this country in her trade relations with the United Kingdom is by far greater than

these figures warrant and it is this that has largely led to accumulation of our sterling assets with the Reserve Bank of India at London.

Future of India's Foreign Trade: The direction of India's forign trade during the post-war period is difficult to forecast. In can be reasonably assumed that the United Kingdom and U.S.A. will try their best to retain markets in India. It is, however, an altogether different story, so far as our exports to these two countries are concerned. The difficulties in the expansion of the Indo-U.S.A. trade during the post-war period would be very substantial. India would be requiring from the U.S.A. mainly capital equipment, automobiles, etc. She may not be able to repay these with her exports of jute and jute manufactures, which formed her principal exports to U.S.A., during the pre-war years. As India would not be in a position to export substantially other commodities, her trade especially import trade with the States would be a difficult proposition until and unless some arrangement is made between His Majesty's Government and the United States and our sterling assets are converted into dollar assets. As England is not likely to agree to it, even though she herself may not be able to supply India's requirements immediately or for sometime to come, it is bound to prove a constant source of irritation in Indo-British relationship.

India's external resources to-day are all in the form of sterling. Great Britain controls the Empire Dollar Pool and India is dependent for dollar requirements, however insignificant it be, on Great Britain. The dollar surplus that accrues to India as a result of favourable balance of trade and payments is also not credited to India's account separately. We do not know what is the total amount of dollars in the Pool and how Great Britain proposes to set about the allocations from the Pool to India and other contributing countries. So far as the amount is concerned,

it may be recalled that Dr. Harry White, the Assistant Secretary to the Treasury of U.S.A., while giving evidence before the Senate Banking Committee stated that Great Britain had at present a balance of $3,500 million in gold and securities on deposit in the United States of America.* As regards allocation, nothing is known and India is nervous that her claims may not be given due weight.† Resentment is felt not only in India but also in the United States of America. A number of leading Congressmen in that country have strongly condemned the British attitude. Representative Emmannuel Celler, one of the strongest advocates of close and increased Indo-American commercial interests, commented in July 1945 at New York that "India needs American goods but England forces India to deal well nigh exclusively in British goods if it can get them. Britain has not the wherewithal to supply the goods needed by India. She says to India, 'we will not let you buy American goods and we have not the goods to supply you. Therefore, do without them.' The woeful results to India of the British dollar policy could not be better put.

As regards other Empire countries, it is doubtful whether India would be able to hold her own in regard to exports, while it could be reasonably held that they would be able to hold their own position. So far as the Eastern countries are concerned, especially the Middle East and the Near East, with better organisation, the Indian industries, such as textiles, should be able to retain their hold to a considerable extent during the post-war period. The disappearance of Japan for sometime to come would greatly facilitate this task.

The direction of the trade and to some extent the composition as well have been greatly moulded by the con-

*Message of Associated Press of America, dated Washington, June 30, 1945, published in the "Amrita Bazaar Patrika," Calcutta, of 2nd July 1945.

†India's nervousness is well justified. It was stated in the Budget for 1945-46 presented on the 28th February of this year—1945, that out of the Pool, India has been allocated annually 20 million dollars for Post-War reconstruction !

trols put into operation during the war. Imports and exports of almost all commodities have been licensed and nothing could be imported or exported without permit. The severe control in exercise in regard to imports led to such a dearth in supply of consumers' goods that great hardships resulted during the war. Increased Indian production could not alleviate the situation because the increased production was not firstly commensurate with the Indian demand and secondly because of abnormal demands from the British and other Allied Governments. It is also a peculiar feature in Indian trade controls that the export controls were not strict to begin with and came much later in the day. These also widened the gap in the available supply to civilians.

Indian production of consumers' goods as well as other goods did not increase to the extent it could have normally done on account of the lacunae in Indian industrial field. If only India had heavy engineering industries, locomotives, machinery, automobiles, ship-building, heavy chemicals, etc., either just on the eve of the war or even during the war, the effect on her economy would have been simply marvellous. India would have emerged out of the war just as Japan did during the last war as a great industrial nation. On the other hand, scarcity of goods, heavy inflation resulting in unheard-of prices, frustration and sufferings have been the lot of the Indian people.

U.K.C.C.: One of the features of this war, which made itself felt quite early, was the establishment of an organisation in 1940, sponsored by the British Government known as the United Kingdom Commercial Corporation or U.K.C.C. for short.* The majority of the shares of this Corporation are held by the British Government and both the British Government and the Indian Government have kept a mysterious silence on its activities. It is said to have been

*On the 6th of August 1942, the Government of India admitted that "it is true that the U.K.C.C. has a capital which has been subscribed by the British Treasury and in matters of broad policy it is subject to consultation with His Majesty's Government."

originally formed for the purpose of organising England's trade with the Balkan countries and the Near East. The Corporation very soon developed into a fully grown octopus with its tentacles on the trade of Near East, and Middle East and probably Egypt and some parts of Africa. No imports or exports could be carried with these countries except through the channel of this corporation. It being a privileged body, paying no taxes, getting high priority, the services of the Supply Department were at its disposal in regard to not only purchases of goods but also the prices at which these commodities were bought. The Indian opinion, as is to be expected, was very hostile and the Government of India were never able to allay suspicion or answer the charges levelled against the U.K.C.C.*

It was announced in June last that the Government of India have decided to close down the Indian offices of the U.K.C.C., as soon as it is conveniently possible. The official announcement also mentions alternative arrangements to be made by the Department of Commerce for the procurement of supplies for Russia. At present, we have no information as to when the Indian offices of the U.K.C.C. are to be closed or what is to be the nature of alternative organisation. Indian commercial opinion is emphatic that the alternative organisation should be run and controlled by Indians.

Ominous Import Policy: The import policy of the Government of India during the war and the indications that are available as to what is proposed to be done during the post-war period, have aroused severe misgivings in the public mind. Sir Thomas Ainscough, formerly His Majesty's Senior Trade Commissioner in India, Burma and Ceylon, while reading a paper at the East India Association in February last on Britain's Indian market, was quite

*"It was often used," the 'Indian Finance' in its issue of the 16th June 1945, wrote, "as a spearhead of the British commerce and it was trying to lay the foundation of post British drive for more exports, besides achieving wartime purposes of pre-emption. Indian exporters have lost part of their markets, which they could have exploited but for the activities of the U.K.C.C., subsidised by the British Government and helped by the Government of India."

confident of "the increasing share of Britain in India's foreign trade." After pointing out that U.S.A. was more likely to interest herself with the South Africa and China rather than meet with "firmly established U.K. competition," he made out that established United Kingdom suppliers are sure to secure a lion's share of contracts for the completion of schemes for railway and road improvement and extension, public works, irrigation, dock and harbour, electric power projects, works and agricultural development and uplift. His confidence was based on three grounds. He was of opinion that "the privileged position as contractors of those who are in the closest touch with Government engineers and purchasing officers and have supplied most of the existing plant, which has been tested and proven by decades of good service and the fact that British tenders and practice prevails in India." Sir Thomas further added that "the demand for capital goods and plant on Government account alone is sufficient to keep many industries in this country (Britain) active for years to come. Over and above this programme, account must be taken of the heavy demands from existing private industries in India to rehabilitate and renew their plants which have been worn out during the war years." "What is more," he also added "to these must be added the numerous plans for new industries, for which capital is already available ......the need for providing necessity and amortization of Britain's debt to India, which can be only repaid in the form of goods or services would be a powerful factor in canalising all demands for capital goods through U.K. sources of supply." While there could be no objection to England helping India in her way of industrialisation, the well-known facts that England is not now in a position to export capital goods and would play the part of dog in the manger preventing India getting capital equipment from other countries such as U.S.A., are going to be some of the sore points in the Indo-British relationship from now.

A deputation, known as Hydari Mission, was sent to England early in 1945 to arrange the import of consumers' goods, raw materials, etc., to lighten the strain of acute shortage in India. The Mission, according to Government, has been successful and that certain amount of consumers' goods, such as textiles, cycles, sewing machines, etc., would be imported in 1945 and to a larger extent in 1946. The relief is welcome in the sense that acute demand in certain directions must be met. The Indian industry, however, in particular and Indian public in general are rather nervous that this may be the beginning of officially sponsored dumping of consumers' goods from the United Kingdom to the detriment of indigenous ones.*

Even such a veteran industrialist and a person belonging to liberal school of political thought in the country, as Sir Vithal Chandavarkar, is intensely suspicious of the import trade policy of the Government of India. He stated in the Legislative Assembly on the 19th March last that—

> "The consumers' goods scheme seems to me, Sir, to be rather a brilliant stroke of British commercial diplomacy and is fully in keeping with the traditions of British business, but it does not do much credit to the foresight and imagination of the Government of India. The ostensible purpose of the Hydari Mission is to give relief to the Indian economy but when we consider it against the background of the British export drive—and we are reading in the papers nothing but the determination of the British commercial magnates to make an intensive export drive—we cannot be too sure that this somewhat belated, and rather ominous, awakening on the part of the Government of

*The Bengal National Chamber of Commerce, in their communication, dated 25th April 1945, to the Government of India hold that "many goods which could be imported from England at this stage without detriment to the development of Indian industries and the import of which was even essential for the purpose have been left out, while on the other hand, arrangements have been made for the import of many goods which are manufactured in India in sufficient quantities or the production of which, though not adequate at the present moment, is capable of further expansion even to the extent of meeting the entire requirements of the Indian market provided sufficient facilities are given by the Government to them."

India of their responsibility to the Indian consumer is not at least partly due to the organised pressure of foreign commercial interests. His Majesty's Government have left us in no doubt about their commercial policy. As the president of the Board recently stated, Britain will need at least a 50 per cent increase in her export trade, as compared with the pre-war level. Since the outbreak of war, British exports have already shrunk by about 250 million sterling. The policy of increasing exports by 50 per cent over the pre-war level would mean that Britain will try to recapture markets for £250 million, which have been lost during the war, and find additional markets for £250 million. The American industrialists have declared a similar objective of raising their exports to double the pre-war figure, i.e., from 1,000 million to 2,000 million dollars. Reports are daily pouring in of the preparations being made by the United Kingdom business interests to re-establish their position in the Eastern markets. We do not propose to emulate their example, but helpless as we are, I presume we are expected to dig our heads into the sand and refuse to read the signs of the times. We are expected, I believe, to lull ourselves into the belief that the consumers' goods scheme is not inspired by any other motive than a genuine regard for the interests of the Indian consumer."

The Government gave an assurance that they would be arranging only the imports of such consumers' goods as are not produced at all in India or are produced in insufficient quantities. Government, to our knowledge, have made no enquiries nor taken any measures to increase the production of a number of commodities, which they have now arranged to import. The discrimination between foreign and Indian goods, in regard to freedom from rationing of the former, such as cotton textiles, paper, etc., has made the Indian industrialists justifiably anxious about the future. While Indian commodities are subjected to control restrictions, the imported ones are not. It is also

stated that discrimination is put in practice between Indian and foreign products when fixing control prices. It is a common knowledge that the control prices for Indian made cycles and electric bulbs are higher than the prices of imported commodities. As soon as imported articles come in larger numbers, the cheaper prices would naturally attract customers and they would be able to hold their own even after controls have been removed and prices of Indian commodities fall.

CHAPTER FIVE

INDIAN TRANSPORT SYSTEM DURING THE WAR

Railway Services Diverted to Military Requirements: The inadequacy of the Indian transport system on the eve of the war has been referred to. During the war, the railways, on the one hand, suffered from lack of engines, parts. etc., which were imported and on the other had to meet an abnormal demand from the military authorities and civil trade and commerce. The railway factories and workshops also turned out certain types of munitions, hand grenades, etc. As the existing munitions and ordnance factories were not sufficient and as the Government till the beginning of war had neglected this altogether, railway workshops were the only alternative source they could turn to. In addition to these, Indian railway workshops are said to have constructed, according to Government agency, during the war-time, over 1,400 miles of military sidings, several minor sidings and in all arranged about 3,500 miles of track materials. The Indian railways have also sent overseas, according to the same report, locomotives, coaching stock and wagons, large quantities of rails, sleepers, rolling stocks. etc. The switching over from the normal vocation of repairing and mending naturally resulted in the deterioration of the maintenance and repairing of engines.

Railways during the War: Following are the relevant figures concerning the rolling stock on Class I railways:—

Statement of Rolling Stock of Class I Railways on 31st March

	1939	1942	1943	1944
Broad Gauge Locomotives ..	5.300	5,313	5,314	5.353
Metre	2.323	2.216	2,224	2,246
Narrow	296	281	274	273
Total ..	7.919	7.810	7.812	7.872
Broad Gauge Goods Wagons ..	149.131	150.769	151,054	152,225
Metre	52.299	47.764	47.591	47.855
Narrow	3.587	3.476	3,369	3.360
Total ..	205.017	202.009	202,014	203.440

For reasons already explained, the total number of locomotives as well as wagons have been decreasing. Only in the year 1944, the position is a little better.

Following are the figures concerning the mileage, traffic and earnings of railways:—

Total Traffic and Earnings of all Indian Railways

	1938-39	1941-42	1942-43	1943-44
Number of passengers carried (millions)	530.6	623.1	622.3	789.3
Passenger miles (millions) ..	18,743	22,019	24,353	32,483
Earnings from passengers (Rs. in crores)	30.73	39.69	48.80	67.11
Freight Tons Carried (millions)	88.4	97.0	95.3	95.9
Net Ton miles (millions) ..	22,159	28,046	28,107	28,361
Earnings from goods carried (Rs. in crores)	68.57	89.63	97.21	102.82

The number of passengers carried has increased in 1943-44 by nearly 50 per cent over the 1938-39 figure. Passenger miles have risen during the period by more than two-thirds. Earnings from goods carried has also risen by nearly 50 per cent, and earnings from passengers has more than doubled.

With an abnormal increase in demand for railway services, the railway system in India had to operate with decreasing rolling stock, with less than even the normal equipment in men and materials for carrying out even the necessary repairs. The inconvenience to the public, the inefficiency that has accompanied and the dislocation of the trade, commerce and industry all could be very well appreciated. These could have been avoided if only the Government were not indifferent and had actively assisted the establishment of locomotive industry, if not earlier at least during the beginning of the war.

Other transports during the War: So far as road transport is concerned, after the year 1940-41, in all probability, motor vehicles ceased to be imported for civilian consumption. In order to meet the military and other Government demands, the military and other authorities also

requisitioned in a number of places an appreciable number of motor vehicles operating for civilian use. The consequent shortage of motor transport especially in all those regions—and there are plenty of such regions which are not served by railways—could be very well understood. While one could have understood the difficulties in other countries consequent upon petrol rationing, military needs etc., the callous indifference, which led to the Government to frown upon the demands for the establishment of automobile industry in India and the difficulties experienced by shortage of vehicles has created much bitterness in the public mind.

The position in regard to coastal traffic was still worse. Most of the vessels engaged in coastal traffic were requisitioned by the Government for mine sweeping and other purposes. There being no ship-building industry in India, coastal trade in merchandise came to a standstill and had to be carried by the already overburdened railways.

Sufferings of the public: During the war years, the shortage of transport facilities to the civilian public, especially the trade and industrial classes, has been such as to dislocate very considerably the economy of the country. That naturally led to shortages of local supply of even such important commodities as foodstuffs in some places when other places were replete with them. Profiteering, hoarding and abnormal rise in prices should all, to some extent, be attributed to the lack of adequate transport facilities during the war. It is the Government that has to fully shoulder the responsibility for their wanton unwillingness to establish and their positive dislike to the establishment of the transport industries by the industrialists of the country.

CHAPTER SIX

HOW INDIAN CURRENCY AND BANKING FARED DURING THE WAR

If any branch of Indian economy has been affected most vitally, for the duration of the war at least, it is the Indian currency. Soon after the commencement of the war, the panic of the people led them to convert bank notes into silver rupees and hoard them. Similarly small coins also tended to be hoarded away. After vainly attempting to meet the increased demand, Government made it a penal offence the hoarding of rupee coins and later on also small change in excess of personal or business requirements. The silver contents of the rupee and half-rupee coins were reduced to do away with the incentive for hoarding and from July 1940 onwards one-rupee notes came into existence. Two-rupee notes were put into circulation from February 1943. It is not these minor changes that matter so much in the Indian economy as the major changes that have taken place on account of the expansion in the note issue.

Comparative Currency Statistics

(Rs. in Crores)

	1st Sept. 1939 (Pre-war)	1st June 1945
RESERVE BANK		
Issue Department—		
Notes in Circulation	172.44	1,123.61
Notes held in Banking Department	35.05	13.82
Sterling Securities	39.50	1,019.33
Rupee Securities	37.39	57.84
Banking Department—		
Central Government Deposits	14.89	266.26
Balances held abroad	10.08	393.55

Changes in the composition of currency: Notes in circulation have risen from Rs. 172.4 crores on 1st September 1939 to Rs. 1,123.6 crores on 1st June 1945. In other words nearly an additional 550 per cent currency by way of notes issue has been put into circulation. Following are the details of the Indian currency statistics upto April, 1945:—

Indian Currency Statistics

	Issue Department					Balances held abroad by the Banking Dept. of the Reserve Bank.†
	Notes in circulation	Gold Coin and Bullion	Sterling Securities	Rupee Coin*	Rupee Securities	
Friday Average of						
1938-39 ..	174,39	44,42	66,95	67,11	32.16	421
1939-40 ..	198,13	44,42	78,63	67,52	37,44	12,34
1940-41 ..	228,03	44,42	129,92	35,87	48,46	39,32
1941-42 ..	287,48	44,42	165,00	35,28	75,19	46,08
1942-43 ..	513,44	44,42	319,11	22,33	139,38	75,11
1943-44 ..	777,17	44,42	643,52	14,28	85,45	111,72
1944-45 ..	968,69	44,42	863,73	13,52	57,95	277,28
January 1945	1,029,37	44,42	923,57	13,02	57,84	355,61
February ,,	1,053,76	44,42	948,57	11,17	58,84	360,81
March ,,	1,078,47	44,42	972,32	14,14	57,84	377,54
April ,,	1,106,01	44,42	995,82	17,74	57,84	389,05

Gold, coins and bullion have remained stationary. Rupee securities have risen from Rs. 37.4 crores in 1939-40 to Rs. 48.5 crores in 1940-41, to Rs. 75.2 crores in 1941-42, to Rs. 139.4 in 1942-43, declined to Rs. 85.5 crores in 1943-44 and were at nearly Rs. 58 crores in 1944-45. The rupee coins in 1938-39 were 67.1 crores as against the total note issue of Rs. 174.4 crores in that year. In April 1945, they were just Rs. 17.7 crores as against a total note issue of Rs. 1,106 crores. The sterling securities held by the Reserve Bank both in its Issue and Banking Departments has risen from Rs. 71.2 crores in 1938-39 to Rs. 1,384.9 crores in April 1945. The sterling securities in April 1945 were 19½ times of what they were in 1938-39. In other words, there has been an increase of 1850 per cent in the period.

Comparison of Note issue with other countries: War always brings a certain increase in expansion of the currency of countries. Some comparative figures are given below:—

*Including Government of India one rupee notes from July 1940.
†Including cash and short-term securities.

Notes in circulation in some of the Countries*

(000,000 omitted)

Country.	Unit	December				1944			
		1939	1941	1942	1943	August	Sept.	October	November
Germany (Reich bank) ...	Reichmark	11,798	19,325	24,375	33,683	38,579	42,301	44,704	......
Japan	Yen	3,818	5,934	6,921	9,667	12,910	13,730	......	......
U.S.A. (Federal Reserve Notes)	Dollar	4,912	8,138	12,082	16,737	19,527	20,017	20,631	......
U. K.	£	554.6	751.7	923.4	1,088.7	1,146.0	1,154.6	1,164.4	1,189.5
Canada (Bank of Canada)	C. Dollar	233	496	694	874	960	983	1,012	1,008
Australia	A. £	57.3	84.9	123.4	163.8	196.5	197.7	199.5	....
Union of South Africa	S. A. £	20.9	30.1	39.6	51.0	52.1	56.3	.....	.....
India	Rupee	2,245	3,145	5,704	8,408	9,270	9,413	9,565	9,731

*Compiled from League of Nations Monthly Bulletins of Statistics.

The increase in note circulation in India in September 1944 was greater than that recorded in Germany, Japan, Australia, South Africa and the United Kingdom. Only in the United States and Canada there was an increase in currency comparable to that in India. On the 16th May 1945, the notes in circulation in the United Kingdom amounted to £1,262 million. There was an increase of 128 per cent over the 1939 figure. In India on the 11th May 1945, the notes in circulation rose to Rs. 1,125 crores, The increase in currency in India was 400 per cent over the 1939 figure given by the League of Nations' statistics. In the United States of America, the Federal Reserve Notes in circulation on the 10th May 1945 totalled $22,722 million. That represents an increase of 360 per cent over the 1939 figures given in the table above. India has beaten even the United States of America on that date in regard to expansion in her currency.

Systematic and steady increase in note issue: It has to be noted that the expansion in currency has been going on steadily and that not only in regard to notes but also in respect of rupee coins and small change, though to a lesser extent. The figures on the next page would be of interest:—

Additional currency has been put into circulation systematically right from the beginning of the war, week after week, month after month and year after year. Between January and April of this year, i.e., 1945 itself additions to note issue have been ranging between Rs. 22.2 crores to Rs. 25.5 crores per month. It may be mentioned that as recently as December 1944, as much as 36.5 crores of additional note issue was put into circulation

Additions to Currency

(Lakhs of Rupees)

	Increase (+) or Decrease (−) in Circulation						Total Absorption of Currency
	Notes		Rupee Coin		Small Coin		
	During the month	Progressive from April	During the month	Progressive from April	During the month	Progressive from April	
1939-40	......	+ 49,45	......	+10,08	......	+ 2,21	61,74
1940-41	......	+ 19,11	......	+33,23	......	+ 4,28	56,62
1941-42	......	+152,40	......	+ 7,18	......	+ 5,06	164,64
1942-43	......	+261,85	......	+44,93	......	+11,64	318,42
1943-44	......	+238,91	....	+25,60	......	+18,46	282,97
1944-45	......	+202,39	......	+10,05	......	+19,51	231,95
January 1945	+24,41	+151,52	+ 2,32	+ 6,68	+ 1,46	+16,64	
February ,, ...	+25,33	+176,85	+ 2,30	+ 8,98	+ 1,34	+17,98	
March ,, ...	+25,54	+202,39	+ 1,07	+10,05	+ 1,53	+19,51	
April ,, ...	+22,15	+ 22,15					

Why and How Sterling securities accumulated: Under the Reserve Bank of India Act, an expansion in currency could take place only if there is a corresponding rise in the assets of the Issue Department of the Reserve Bank. We have already seen that, in regard to the assets of the Issue Department of the Reserve Bank, gold, coins and bullion remained stationery, rupee coin has declined and rupee securities show only a small rise. The assets, which have enabled the Reserve Bank to print more notes, are practically only Sterling securities, which in April 1945 stood at 20.5 times (sterling held by the Issue and Banking Departments) of what they were in 1938-39. Taking the Issue Department alone, these sterling securities have risen to about 1450 per cent in April 1945 as against the 1938-39 figure.

The accumulation of sterling securities has resulted because India is a member of the British Empire and is a component of the Sterling group. The League of Nations' World Economic Survey has neatly summarised what this membership of the Empire and the Sterling group means. It is stated that: "This second characteristic has had important results for the external war finance of the United Kingdom. The system is not new; before the war, these countries found it convenient to hold their exchange reserves in the form of sterling balances as a result of the close commercial and financial ties which they maintained with the United Kingdom. The introduction of exchange control in the United Kingdom and in all the other sterling countries reinforced this practice and strengthened the general cohesion of the system. Within the sterling area, a certain freedom of payment was maintained. Under the exchange regulations of the United Kingdom, transactions with other sterling countries were at least partly exempt

from restriction. The regulation adopted in the other sterling countries provided in most cases for similar exemptions or relaxations. Thus, for all practical purposes, the sterling area became one monetary unit. Within this unit, the United Kingdom could pay for all the goods she bought with her own money, with pound sterling....Under this system, then, an excess of British purchases in the sterling area over payments currently effected by these countries to the United Kingdom leads automatically to an increase in their sterling exchange reserves. But that is not all. A surplus in their transactions with the non-sterling world tends likewise to increase their sterling reserves, since the foreign exchange received is usually delivered to the British authorities in exchange for sterling funds in London. Sterling area balances in London are invested directly or indirectly in British Government obligations, principally Treasury Bills. In this way the British Government obtains in effect short-term credits from the sterling area, which help to cover its budget deficit, and which represent the financial counterpart of the contribution made by these countries to the British war effort in terms of goods and services."*

From the commencement of the war, strict control of foreign exchange was instituted and as admitted by the Reserve Bank in their report for 1940-41, the object of the exchange control regulations were directed to conserve the foreign exchange by limiting remittances except for essential purposes. In this the Reserve Bank of India simply followed the Bank of England. In fact, there was no necessity to conserve foreign exchange so far as India was concerned because her foreign trade has always resulted in a favourable balance of trade.

*League of Nations' World Economic Survey, 1939-41.

The Government of the United Kingdom had to find rupee finance for financing its purchases of goods and payment for services. The British Government simply took advantage of the rupee-sterling link, deposited so much of sterling with the Reserve Bank in England and thereby enabled the Reserve Bank of India to issue notes and help the British Government in purchasing necessary goods. As Dr. V. K. R. V. Rao puts it, "the villain of the piece, so far as the issue of more Indian currency is concerned, is the fact of linking of the rupee to sterling."* The Reserve Bank of India, under the existing constitutional position, is not in a position to over-ride the dictates of the British Government especially when it is issued through the Finance Department of the Government of India. Such a thing, of course, would be an impossibility if there was a national Government at the Centre. But for such a link, the British Government would have to adopt the same tactics as it did in case of dollar securities and shoulder the responsibility for acquiring rupee finance in India. The consequent accumulation of stering assets, in spite of repatriation, etc., has been huge and against the interests of this country. The following gives information concerning the sterling assets acquired and disposed of upto the end of January 1945.**

The sources of the supply of sterling and its disposal up to the end of January 1945:

	Crores of Rs.
1. Sterling assets held by Reserve Bank August 1939.	64
2. Sterling purchased by Reserve Bank—	

*War and Indian Economy, p. 116.
**Explanatory Memorandum on the Indian Budget for the year 1945-46.

		Crores of Rs.
	September 1939-January 1940.	63
	February 1940-January 1941.	86
	February 1941-January 1942.	90
	February 1942-January 1943	105
	February 1943-January 1944.	152
	February 1944-January 1945.	137
3.	Sterling Payments by H.M.G.	1,245
4.	Sterling amounts involved in repatriation.	400
5.	Other Sterling Commitments.	238
6.	Sterling holdings of Reserve Bank at the end of January 1945.	1,304

Sterling payments by His Majesty's Government upto the 31st January 1945, amounted to 1,245 crores and the sterling securities held by the Reserve Bank for the same period totalled Rs. 1,304 crores.

What are Sterling securities: The Sterling securities of the Reserve Bank at London are the accumulated result of the loans that India has been making right through from the commencement of the war to Great Britain. The securities are mainly the British Treasury Bills. Although by their nature, they may be styled as short-term loans, they are in fact long-term loans. The "Economist" wrote in this connection, "The investment of sterling area funds in Treasury Bills or deposits is a virtually compulsory investment, made as a result of the revolution caused by the war in the United Kingdom's balance of international payments and by the strict control of sterling exchange. It is,

therefore, the investment of 'good' money and, though made for the moment in the form of a short-term debt, it is an investment which it is reasonable to assume will be fairly permanent."* Principal Gadgil and Prof. Sovani write that "the increasing diversion of Treasury Bills into such channels as the sterling balances of Empire countries, which form no part of Britain's domestic credit structure, has enabled the British Government to desist from placing an excessive volume of bills with the British banks and thus to avoid inflationary expansion of bank credit in England. Action and reaction are, however, equal and opposite; every action is followed by an appropriate reaction. If the British Government succeeds in not foisting an excessive volume of bills on the British banks by diverting them into sterling area balances, the success is due to their being foisted on the Empire countries. The inevitable consequence is that there is currency and credit expansion in those countries. The inflation that is 'packed up' in Great Britain is safely delivered into the Empire countries."**

Rise in prices and cost of living in India and elsewhere: We have already seen that the increase in production in the country would by no stretch of imagination be put above 30 per cent of the pre-war level. In fact, several economists hold that the volume of production in India during the war could have increased at best only by about 20 per cent. With an increase in production of 30 per cent or less and an addition to the currency of 550 per cent by way of note issue alone, one could well imagine the damage that has occurred to the country's economy. The abnormal rise in prices during the war years may rightly be deduced as the direct result of the huge gap between production of commodities and expansion in currency. On the next page are given the figures of wholesale prices and cost of living:—

* "Economist" dated July 5, 1941.

** War and Indian Economic Policy—10-50.

Index Numbers of Wholesale Prices and Cost of Living in India

	Wholesale Prices*: Week ended 19th August 1939=100 (Average of weekly figures)						Working class Cost of Living in Bombay (July 1933-June 1934=100)
	Agricultural Commodities	Raw Materials	Primary Commodities	Manufactured Articles	General Index	Chief Articles of Export	
1939-40	127.5†	118.8†	124.2†	131.5†	125.6†	130.5†	108
1940-41	108.6	121.5	113.4	119.8	114.8	114.1	114
1941-42	124.2	146.9	132.5	154.5	137.0	137.3	128
1942-43	166.2	165.9	166.0	190.4	171.0	161.7	174
1943-44	268.7	185.0	232.5	251.7	236.5	236.4	237
1944-45	265.4	206.0	240·5	258.3	244.2	243.9	236
January 1945	275.3	211.6	248.5	257.1	250.3	249.7	229
February ,, ...	274.5	209.0	246.9	255.7	248.8	249.1	229
March ,, ...	273.6	208.7	246.2	253.7	247.8	249.8	225

* Source: Office of the Economic Adviser to the Government of India.

†Seven months ended March 1940.

The general index has risen from 125.6 in 1939-40 to 250.3 in January 1945. Chief articles of exports have also risen more or less in the same manner. It should be understood that these indices are quotations for the open market. In fact, prices have been several times higher and, as already stated, the rise in prices of most commodities particularly food and clothing, from the beginning of 1943 onwards and even now, could be safely put at 400 per cent. The index number of wholesale prices in Calcutta for all commodities stood at 95 in 1938, 108 in 1939, rose to 120 in 1940, 139 in 1941, 185 in 1942, 307 in 1943 and 298 in 1944. Between January and April 1945, it has been ranging between 296 and 306. The same index number rose to 332, 345 and 349 in July, August and September respectively of 1943. We had already occasion to refer to high prices of cereals, pulses, "other food" materials and cotton manufactures. No wonder that the cost of living has risen very greatly. The working class cost of living index number, which was at 108 in 1939-40, stood as recently as August 1944 at 250. The tables on the next two pages giving a comparison of conditions elsewhere would be of interest.

It is for August 1944 that we have the figures for all countries. In no other country, such a rise in the index numbers of wholesale prices has taken place, not excluding Germany and Japan, and not to speak of the U.S.A. or the United Kingdom. Same is the story in regard to the cost of living index numbers. The heavy rise in prices of stocks and shares as a result of monetary inflation has already been dealt with.

Expansion in currency or inflation to whatever extent they occurred in other countries, have been off-set by the Governments of those countries, taking adequate pre-

Comparative Statement of the Index Numbers of the Cost of Living

(Jan.-June 1939 = 100)

A = Footstuffs. B = Heating and Lighting. C = Clothing. D = Rent. E = Other expenses.

Country.		Villas. Towns.	Composition	Average 1941	Average 1942	Average 1943	1944 July	1944 Aug.	1944 Sept.	1944 Oct.	1944 Nov.	1944 Dec.
Germany		72	A-E	106	108	110	116	115	112	111	...	...
			A	105	107	110	119	117	112	111	...	...
pan (Tokio Banque)	(a)	1	A-C,E	122	125	133	147	148	155	...	...	...
			A	120	122	127	141	...	...	...	...	...
(Bureau Stat.)	(b)	24	A-E	126	131	141	...	...	...	...	...	...
			A	131	134	146	...	...	...	...	...	...
U.S.A. (Bureau of Labor Stat)	(b)	34-51	A-E[4]	106	118	125	127	128	128	128	128	...
		51	A	112	131	146	145	145	145	144	144	...
(Nat. Ind. Conf. Board)	(b)	174	A-E	106	116	112	125	125	125	125	125	...
United Kingdom	(d)	24-509	A-E	129	130	129	131	131	131	131	...	...
			A	131	119	123	125	124	124	124	...	...
Canada	(c)	5	A-E[4]	112	116	118	118	118	118	118	...	...
		69	A	119	130	133	134	133	133	134	...	...
Union of South Africa		9	A-E	108	117	124	128	127	...	...	...	...
		9	A	110	121	131	137	134	...	...	...	...
Australia	(e)	30	A-E[5]	110	119	123	...	123	...	...	...	...
	(a)		A	102	111	111	112	111	110	...	...	...
India (Bombay)		1	A-D	119	151	221	...	...	...	...	...	...
			A	127	163	228	...	...	...	...	...	...

Source: Government or Central Bank authorities, unless otherwise indicated.
(b) 15th or middle of the month.
(c) First or beginning of next month.
(d) Average IV, VI-XII.
4. In addition house furnishings.
5. Including lighting.

A Comparative Statement of the Index Numbers of Wholesale Prices*

(Jan. -June 1939=100)

Country.		Average.			1944					
		1941	1942	1943	July	Aug.	Sept.	Oct.	Nov.	Dec.
Germany	(*a*)	105	108	109	111	111	110	110	..	
Japan (Tokyo)	(*a*)	124	134	142	158	159	..	..	..	..
U.S.A. (Bur. of Labor Stat.) ..	(*a*)	114	129	135	136	136	136	136	*137	
(Irving Fisher) ..	(*a*)	117	134	140	142	142	142	142	143	
United Kingdom										
(Board of Trade)	(*a*)	157	164	167	172	172	172	171	..	
(Statist)	(*c*)	159	169	172	180	180	..	..	..	
(Economist)	(*c*)	152	160	164	170	169	170	170	170	
Canada	(*a*)	123	130	136	140	140	140	140	140	
Union of South Africa	(*a*)	123	139	151	155	155	..	..	..	
Australia	(*a*)	117	131	137	140	140	139	..	..	..
India (Calcutta)	(*c*)	141	186	311	303	302	305	..	..	..

*Figures compiled from the Monthly Bulletins of Statistics of the League of Nations.

Source : Government or Central Bank authorities unless otherwise indicated.

(*a*) Monthly Average.

(*c*) Last week or end of month.

cautions and safeguards. They were able to do it effectively only because their Governments were national and representative in character. Such a thing was not possible in India, to a very great extent because the Government, especially at the Centre, has not been national or representative of the people in any sense or manner.

The effects of inflation: The effects of the heavy expansion in the currency in India, which has been rightly termed as inflation, have been felt not only in regard to abnormal rise in prices but also in other directions. The vicious habit of hoarding and profiteering are all direct results of the rise in prices. The countrywide rise in prices made the agriculturists, traders and businessmen hoard in anticipation of further rise. Arguing from similar premises, the consumers hoarded or tried to hoard whenever they could fearing higher prices of goods in future.

The value of rupee during the war years and particularly from 1942 onwards has been determined very largely by the policy adopted by the British Government to facilitate making payments for goods and services purchased and commandeered by them in India. The falling value of rupee has worked havoc to the internal economy of the country and particularly the middle and poorer classes have been very badly hit. Prof. C. N. Vakil is of opinion that the inflation in the currency in India has acted as the worst form of taxation. According to him, "inflation may be compared to robbery. Both deprive the victims of some possessions, with the difference that the robber is visible, inflation is invisible; the robber's act is sporadic, inflation acts continuously; the robber's victim may be one or a few at a time, the victims of inflation are the whole nation; the robber may be dragged to a court of law, inflation is legal." He further holds that "the unwilling but heavy contribution which the people are thus made to give for the war is often greater than the direct contribution in the form of taxes and loans, and at the same time it causes

undesirable repercussions in the entire economic fabric of the country."* The burden especially on the poor and middle classes has been very heavy.

Has there been inflation or not?: Attempts have been made to prove that what has occurred in India is only currency expansion in its real sense and it cannot be called inflationary. It is argued that it cannot be called inflationary because there is adequate backing of sterling securities. A mere backing of even gold, let alone sterling securities by itself does not prove that an expansion in currency is not inflationary. Late Prof. Edwin Cannan has pointed out the folly in such a faith in the 'cover.' He stated that, "the belief that a hoard of gold can influence the value of notes merely because it is called **'cover held against'** them is gross superstition. Whether it can be exercised by reasoning seems doubtful, and it has so far successfully resisted ridicule. We can only hope that abandonment of the superstition may at last come from further repetition of the universal experience that 'cover' which is not to be touched by the profane hand of man is absolutely useless for the purpose which it is supposed to fulfil."† Some industrialists hold that the present rise in prices is not due to inflation of the currency but is on account of shortages, in the supply of all important commodities.‡ A simple and at the same time telling definition of Saligman as to what constitutes inflation would be good enough for all practical purposes. According to him "inflation means the existence of currency in quantity larger than actually needed to carry on business transactions at normal price level."

Official Recognition of inflation: The Government of India at first steadily refused to believe that there was any

*Financial Burden of the War on India, page 85.

†Modern Currency and the Regulation of its Value, p. 71.

‡The well-known and respected industrialist, Mr. G. D. Birla, is a protagonist of this view.

inflation in India. The then Finance Member, Sir Jeremy Raisman, in March 1943 denied the existence of inflation. In August 1943, in a statement in the Central Assembly, he evidently realised that the inflationary tendencies were accumulating and the situation was alarming. About that time, Sir (then Mr.) C. D. Deshmukh, the new Governor of the Reserve Bank, also became alive to the dangers of inflation. In November 1943 the Secretary of State for India admitted that there was inflation in India and that it was one of the causes of the food distress and deaths. From that time onwards, the Government fully recognised the inflation that was going on. The Finance Member, during his Budget Speech for 1943-44, denied that there was inflation, but while introducing the Budget a year later for 1944-45, he said, "We have all become conscious of the dangers of inflation" and that it was "his paramount duty to deal first with the menace of inflation."

Anti-inflationary methods: The Government, however, were not prepared to put a stop to issuing fresh currency. Their contention was that until the war was over, it would not be possible for them to do so. According to them as no economy in expenditure was possible, apart from what they could do or have already done, they could only pursue the other methods such as borrowing, taxation, control of prices and money market. They also adopted certain means for fighting speculation. Series of Ordinances have been issud for the restriction and regulation of the starting of new concerns, the Food Grains Control Order, the Cloth Control Order, Anti-hoarding and Profiteering Ordinance etc. So far as these Orders and Ordinances are concerned, they have not nullified the effects of inflation to any considerable extent. Articles have been three to four times pre-war prices in the open controlled market. The prices have simply soared in the black market and profiteering has been going on merrily. At the same time the ordinary channels of trade and the average law-abiding businessmen have been interfered with any amount of dis-

location in trade and commerce. As regards tax remedy the industrialists, businessmen, and the middle class people have been practically squeezed dry. The vicious spiral of inflation, however, not affected, and in fact it could not have been affected so long as the Government refused to stop printing currency notes.

Since September 1943, the Reserve Bank of India has been offering gold for sale to the public. The United Nations have evidently convinced themselves that sale of gold in the Oriental countries—China, India, Middle East and Egypt—would immobilise excess purchasing power. The veil covering the sale of gold by the Reserve Bank was lifted on the 8th February 1944, when the Finance Member stated that, "Gold was sold from time to time in the Indian market at the prevailing market price....The sales were made under arrangements between the Reserve Bank of India and the Bank of England on account of His Majesty's Government and the United States Government. The gold was provided by those Governments from their own resources. I am not in a position to state the amount of profit in these sales. The proceeds on the sales were utilised by those Governments in meeting their war expenditure in this country." While in Egypt and China, gold has been sold by their Governments for their own benefit in this country the Reserve Bank is selling it on behalf of other Governments. Both the United Kingdom and the United States Governments have monopoly of gold supplies and by selling it at a high rate in India, have been making profits ranging between Rs. 25 and Rs. 35 per tola.*

If the Government of India were able, as the Egyptian Government has been, to buy gold in exchange for its sterling assets, the profits above Rs. 46/- per tola would have flowed into their own treasury. We have no reliable information concerning the total amount of such sales.

*At the exchange value of rupee and until recently, the prices at which the Governments of the two countries could buy gold was at Rs. 46 per tola.

Some non-official estimates put it Rs. 148 crores upto 31st March 1945. Although some crores of rupees must have been withdrawn from circulation by these means, as an effective method of anti-inflation, it may be presumed that it has not succeeded.

The Government took advantage of the accumulation of sterlings to repatriate sterling debt of India. The sterling debt has been brought down from Rs. 396.5 crores in 1938-39 to Rs. 13.5 crores in 1944-45. The holders of sterling debts in England were paid off in sterling. Rupee counterparts of this debt issued in India were partly taken by the Bank itself and partly given to the public. A part of the debt has been cancelled because it has been held that the Indian market was not in a position to take the amount of counterparts. The repatriation of sterling debt is probably the one major and successful anti-inflationary method adopted by the Government of India.*

Liquidation of Sterling Balances: The settlement of sterling balances is going to be an extremely difficult affair for India and England.† It is idle to demand payment in gold for the simple reason that amount of gold is not available to be handed over to India. It is impossible to convert it into dollar assets to any great extent because England is deadly opposed to it. England being a commercial nation knows, however, the value and worth of the old adage that honesty is the best policy, and we can be reasonably sure that she will try to keep up her commercial tradition in regard to the settelment of sterling assets as well. Settling the issue is one thing and settling it equitably is another. Therein comes all the difference

*It has been anti-inflationary, however, only to the extent the rupeee counterparts were issued to the public. Out of Rs. 425.37 crores (purchase value) of sterling repatriated only Rs. 273.39 crores of counterparts were created upto 1943-44.

†The International Monetary Conference, which met at Bretton Woods, did not decide the issue. The Conference simply left it open for further discussion.

to India. Unless the leaders and spokesmen of this country are vigilant, a good part of these balances would disappear.

One notable suggestion, in this connection, is the liquidation of British commercial investments in India. Various estimates of pre-war British investments have been made. A conservative estimate, according to a recent writer, puts it between £200 million and £250 million, of which probably not more than £10 million or £15 million have changed hand so far.* It is doubtful whether the entire British investments in India could be liquidated in this manner. To put it into effective operation, regular market buying would be essential and there is no assurance whatsoever that the British holders of stocks would sell these investments at any reasonable price. Out of about Rs. 300 crores of foreign investments, with goodwill of the British Government and a strong national Government in India, these could probably be brought down by about Rs. 150 crores.

The exports of Great Britain to India in large quantities of goods is another avenue which has to be systematically explored. India's greatest need today is food materials and is likely to remain so for some three to four years at least. England should purchase and arrange to export to India the maximum food by way of wheat, etc. The next in the list of immediately needed articles in India are capital goods. Plants and machinery in India having undergone a severe strain during the war years are in a bad state of repair and for various industries to be started in the near future, plenty of machinery, plant and spare parts would be required. These exports have already been anticipated by British economists and publicmen. The drawback to India is that she has little choice in the matter and she will have to purchase if and when she is able to

*Britain's Sterling Balances and External Debt, by Donald F. Hethrington, p. 18.

obtain them from the United Kingdom and at the price dictated by her. A strong national government at the Centre, by exerting due pressure on the British Government, could to an extent modify this position and India would be able to purchase in the best and cheapest market to some extent at least.

After allowing for these exports from the United Kingdom and for the liquidation of investments in India to whatever extent it is possible, we would still find that there would be hundreds of crores of rupees worth of sterling balances. The only and final remedy, basing our assumptions on the British traditional commercial integrity would be, that the United Kingdom should float a loan in India for the amount. England has no reason to be alarmed at this suggestion of floating a loan as this would be only a small bundle over her camel's back of public indebtedness. With the solution of the problems of sterling balances, the question of inflation would also be solved to a very considerable extent. In addition of course strict economy and retrenchment by the Government, stabilisation of the cost of living and the Government launching on large scale public works financed by loans are some of the immediate practical methods available.

Banking during the war: For a few weeks after the commencement of war, there were some heavy withdrawals from banks, the non-scheduled banks suffering worse. But fortunately for the Indian banking, the confidence of the public was very soon restored and the banks have progressed during the war.

Reserve Bank during the War.—On the next page are the figures of the Banking Department of the Reserve Bank:—

The total deposits of the Reserve Bank rose from Rs. 31.8 crores in 1938-39 by more than 12½ times to Rs. 402.6 crores in April 1945. Deposits of banks have risen from Rs. 16.2 crores in 1938-39 by about 5 times to Rs. 83.6 crores in April 1945. We have already seen how the balances

RESERVE BANK OF INDIA—BANKING DEPARTMENT*

(Lakhs of Rupees)

	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	Jan. 1945	Feb. 1945	March 1945	April 1945
Deposits.											
Central Government	14.90	6,84	10.03	9.65	12,99	29,31	162,67	254,91	257,89	242,62	273,74
Other Governments	......	7,00	7,37	7.95	8.10	13.16	16,83	16,21	20,16	27,61	20.81
Banks	16.19	17,82	36,84	37.73	57,36	64,69	90,57	68,03	73,79	91,89	83,58
Others	75	1.05	1,91	3,89	3.30	6,65	13,25	21,54	20,83	21,52	24,46
Total	31,81	32,71	56,15	59,22	81,75	113.81	283,32	360.69	372,17	383,64	402,59
Other Liabilities	1.28	1,54	2,56	4,33	7,91	10,82	14,06	16,03	18,49	20,19	20.52
Total Liabilities or Assets ...	43.12	44,25	68,71	75,55	99,66	134,63	307,38	386,72	400,66	413,83	433,11
Notes and Coins	28,38	18,88	17,39	12,35	11,92	10,67	11,19	9,73	8,48	10,52	10,07
Balances held abroad† ...	4,21	12,34	39,32	46,08	75,11	111,72	277,28	355,61	360,81	377,54	389,05
Loans and Advances to the Government	1,72	1,05	2,01	4,09	1.49	49	43	10	4	54	96
Other loans and advances ...	2	11	7	4	4	15	11	10	9	1	3
Bills purchased and discounted ...	1,53	2,87	97	27	68	91	1,46	2,13	5,55	3,13	6.21
Investments	6,36	7,25	7.78	896	7.12	7,61	13,13	15,02	21,44	17,58	22,00
Other Assets	90	1,75	1,17	1.76	3.30	3,08	3,78	4,03	4,25	4.51	4,79

* Capital and Reserves rupees ten crores.

† Including cash and short-term securities.

held abroad by the Banking Department have been steadily rising and contribute a part of our Sterling assets in England. As against about 12½ times increase of total deposits and 5 times deposits from banks, the investments have risen from Rs. 6.4 crores in 1938-39 by about 3½ times to Rs. 22 crores in April 1945.

Scheduled Banks during the War: On the next page are the figures of scheduled banks:—

The number of scheduled banks has risen from 55 in 1938-39 to 85 in April 1945. There has been an addition of 30 scheduled banks during the period. The number of offices of scheduled banks, head offices, branches, pay offices and all, has risen from 1,277 at the end of 1939 to 2,141 by 30th June 1944. Such a rapid increase of banks and branches in short time has led to certain uneasiness on the part of the public. The Reserve Bank of India observed in this connection that "in the course of their examination of recent banking flotations, the Board have also come across a number of undesirable features in the organisation and management of new banks." A comprehensive banking legislation has long been overdue in the country. The Government have introduced and circulated for public opinion a Banking Bill for the regulation of banking and to stop the unhealthy practice that has developed in the banking structure of our country.

From the figures of scheduled banks, it would be seen that, while the time liabilities have risen by about 120 per cent from Rs. 103.3 crores in 1938-39 to Rs. 223.9 crores in April 1945, during the same period, the demand liabilities have risen from Rs. 123.8 crores by about 400 per cent to Rs. 605.3 crores. The balances with the Reserve Bank have risen from Rs. 15.9 crores to Rs. 81.1 crores, a rise of about 5 times. Cash has risen from Rs. 6.4 crores to Rs. 29.7 crores. Advances by the Banks, on the other hand, have risen from Rs. 111.3 crores only to Rs. 280 crores. Bills discounted have risen from Rs. 4.6 crores to Rs. 14.8 crores. Neither the advances nor the bills discounted show any

SCHEDULED BANKS

(Lakhs of Rupees)

	No. of Scheduled Banks.*	Liabilities in India.			Cash in India (Notes and Coin)	Balances with Reserve Bank *	(5+6) as percentage of 4	Advances in India	Bills Discounted in India.	(8+9) as percentage of 4
		Demand	Time	Total 2-3						
	1	2	3	4	5	6	7	8	9	10
Average of Fridays										
1938-39 ...	55	123,81	103,30	227,11	6,38	15,94	9.50	111,34	4,60	50.75
1939-40 ...	59	132,64	101,95	234,59	6,73	17,43	9.98	121,47	4,97	53.38
1940-41 ...	63	155,79	101,19	256,98	7,95	36,42	16.66	117,70	3,69	46.86
1941-42 ...	59	200,13	103,37	303,50	9,16	36,65	14.58	115,32	4,84	39.23
1942-43 ...	61	306,28	104,21	41,049	12,97	55,73	16.73	95,68	2,18	23.83
1943-44 ...	75	456,63	142,78	599,41	20,57	63,63	14,05	156,14	5,59	26.98
1944-45 ...	84	584,80	194,12	778,92	27,31	89,25	14.96	224,22	11,16	30.22
Jan. 1945 ...	84	605,11	207,25	812,36	28,92	67,11	11.82	248,45	14,37	32.35
Feb. ,, ...	84	611,66	216,10	827,76	28,60	70,98	12.03	263,43	14,08	33.53
March ,, ...	84	604,26	220,28	824,54	28,86	91,39	14.58	272,81	14,91	34.89
April ,, ...	85	605,25	223,86	829,11	29,69	81,14	13.37	280,02	14,82	35.56

* At the end of period.

progress comparable to the growth of total deposits. The percentage of the advances and the bills discounted to the total deposits stood at 50.75 in 1938-39. After rising to 53.38 in 1938-39, it fell as low as 23.83 in 1942-43 and was at 30.22 in 1943-44. In April 1945, the percentage rose to Rs. 35.56. The percentage of cash in hand and balances with the Reserve Bank rose from 9.50 in 1938-39 to 16.73 in 1942-43 and was at 14.96 in 1944-45. These two percentages are illuminating. During the war period, the business community was not in a position to undertake proportionately increased business activity with the aid of bank funds.

Velocity of Circulation of Bank Money: The huge amount of deposits, a high percentage of cash to liabilities and a low percentage of the advances and bills discounted to the total deposits show to what an extent there has been an idle money in the country not finding adequate channels of investments. When we take the velocity of circulation of bank money, this point is made still clearer. Following are the relevant figures:—

RELATION BETWEEN DEMAND LIABILITIES OF SCHEDULED BANKS AND CLEARING HOUSE RETURNS

(In Crores of Rupees)

		Average demand Liabilities of Scheduled Banks	Total Cheques cleared	Proportion of Cheques cleared to Demand Liabilities.
1938-39	..	123.8	1,893	15.3
1939-40	..	132.6	2,221	16.7
1940-41	..	155.8	2,030	13.0
1941-42	..	200.1	2,575	12.9
1942-43	..	306.3	2,816	9.2
1943-44	..	456.6	4,281	9.4
1944-45	..	584.8	5,279	9.0

The proportion of cheques cleared to the demand deposits stood at 15.3 in 1938-39, rose to 16.7 in 1939-40, declined to

13 in 1940-41 and has been as low as 9.0 in 1944-45. The big fall in the velocity proves that the bank deposits have not functioned actively. From this conclusion should not be drawn that increase in deposits of banks has had no relation to the rise in general level of prices. All that could be said is that the banks themselves have not embarked upon any inflationary credit policy.

CHAPTER SEVEN

PUBLIC FINANCE IN WAR-TIME INDIA

Growth in Revenue and Expenditure: The world-wide armageddon has left its abiding mark on the public finances of this country. Public revenue has been raised and public expenditure has been incurred on a gigantic scale. A glance through the figures on the next page of the distribution of revenue and expenditure would enable one to appreciate the great changes that have taken place in our finance.

The total net revenue has risen from Rs. 78.5 crores in 1938-39 by about 4½ times to Rs. 350.7 crores in 1945-46. Out of this amount, net tax revenue alone has risen from Rs. 68.6 crores to Rs. 274 crores during the same period, an increase of 4 times. The study of growth of other revenues is still more interesting. Net revenue from commercial departments has risen by 29 times from Rs. 1.5 crores in 1938-39 to Rs. 43.8 crores in 1945-46 and it was even more in 1943-44. Net receipts from currency and mint have risen 48 times from Rs. 22 lakhs in 1938-39 to Rs. 1,057 lakhs in 1945-46. On the expenditure side, the total expenditure has risen from Rs. 79.1 crores to Rs. 506 crores, a rise of nearly 6⅓ times. Defence expenditure has risen by nearly 9 times from Rs. 46.2 crores excluding the defence capital expenditure to Rs. 397.2 crores in 1944-45. Deficits were Rs. 64 lakhs in 1938-39, none in 1939-40, went on increasing and amounted to Rs 189.8 crores in 1943-44, Rs. 155.8 crores in 1944-45 and has been estimated at Rs. 155.3 crores for 1945-46. In other words, deficits in 1943-44 amounted to 296 times of what it was in 1938-39 and for the years 1944-45 and 1945-46, the deficit came to 243 times the deficit in 1938-39*

*The successful termination of the war against Japan earlier than anticipated would lessen defence expenditure and deficit for 1945-46. The revenue on the other hand would be practically what has been estimated by the Government as Government are not going to reduce taxation in any sphere in the middle of the year.

DISTRIBUTION OF REVENUE AND EXPENDITURE

(In Lakhs of Rupees)

	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45 (revised)	1945-46 (budget)
Net Tax Revenue	68,59	75,66	72,16	91,89	1,19,10	1,67,22	2,65,20	2,73,99
Net Revenue from Commercial Department	1,47	5,14	13,34	23,50	24,58	46,61	41,23	43,78
Currency and Mint (receipts less expenditure)	22	88	96	2,17	3,50	7,70	10,35	10,57
Interest Receipts	74	76	79	67	86	1,62	1,74	1,44
Extraordinary Receipts	4,06	3,16	10,50	4,90	16,44	15,43	21,56	16,55
Other Revenue	3,16	3,00	3,38	3,44	4,06	4,29	5,02	4,74
Total Net Revenue	78,49	88,83	1,01,37	1,26,98	1,68,80	2,42,85	3,45,04	3,50,71
Interest on Debt	11,12	9,00	9,78	6,40	6,97	9,09	19,61	30,95
Reduction or Avoidance of Debt ...	3,00	3,00	3,00	3,00	3,00	3,00	3,00	3,00
Extraordinary Payments	1	7,95	1,22	4,65	30,41	30,65	34,89	30,79
Defence Expenditure	46,18	49,54	73,61	1,03,93	2,14,62	3,58,40	3,97,23	3,94,23
Other Expenditure	18,78	19,34	20,28	21,68	25,94	31,51	46,05	47,00
Total Expenditure	79,13	88,83	1,07,90	1,39,67	2,80,97	4,32,64	5,00,81	5,06,00
Surplus +, Deficit—	−64	......	−6,53	−12,69	−1,12,17	−1,89,79	−1,55,77	−1,55,29

Phenomenal increase in Tax Revenue: For war-time finance, the Government of India simply followed the methods adopted by England, at least for the first four years, without taking into consideration the differences in the economic structures of the two countries. When due allowances are made for the low economic stamina, per capita wealth, etc., taxation in India was heavy even before the war. The Government of India during war-time piled Mount Ossa on Pelian in their financial endeavours to extract the last anna out of the Indian tax-payer. The following table gives information concerning the tax revenue of the Government of India:—

Revenue from customs, as is to be expected in a total war, was declining and only for the revised estimates of 1944-45 the revenue approximates to that of 1938-39. The improved military position has evidently made the Finance Member estimate the customs revenue at Rs. 55.3 crores for 1945-46. Revenue from the taxes on income has risen from Rs. 15.8 crores in 1938-39 to Rs. 183.4 crores in 1944-45. The budgeted figure for 1945-46 is less, but it may very well reach upto the 1944-45 figure. While no tax revenue has decreased, the central excise duties show a rise of 4½ times in 1944-45 and 5½ times in 1945-46. Revenue from direct taxes, such as income-tax, corporation tax, etc., was nearly 12 times in 1944-45 of what it was in 1938-39. How has this expansion been brought about? To a certain extent, the increase in yields of taxes has been due to relatively better commercial and industrial position. In the main, however, the increase in the war-time tax revenue has been due to series of fresh taxes.

Excess Profits Tax: Excess Profits Tax, or the E.P.T. for short, accounts for a very considerable part of the revenue from taxes on income. This tax was levied, for the first time, in 1940 on all excess profits, other than those derived by professional men, such as Doctors, solicitors, accountants and also of insurance companies. This tax is payable over and above a minimum of Rs. 36,000/- earn-

ANALYSIS OF TAX REVENUE

(In Lakhs of Rs.)

	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45 (Revised)	1945-46 (budget)
Revenue from Customs ..	40.51	45,88	37,30	37,89	25,12	26,20	40,00	55,25
Revenue from Central Excise Duties	8,66	6,52	9.49	13,15	12,75	27.42	39,07	48,59
Revenue from Taxes on Income including Corporation Tax..	15,78	16,58	21,77	36,67	74,86	1,09,64	1,83,44	1,67,21
Revenue from Salt	8,12	10,86	7,67	9,20	10,91	8,34	9,30	9,30
Other Tax Revenue	83	83	91	1,01	1,21	1,66	1,83	1,83
Total gross Tax Revenue ..	73,90	80,67	77,14	97,92	1,24,85	1,73,26	2,73,64	2,82,18
Total net Tax Revenue ..	68,59	75,66	72,16	91,89	1,19,10	1,67,22	2,65,20	2,73,99

ed after September 1, 1939. The rate was fixed at 50 per cent in 1940-41 and was raised to $66\frac{2}{3}$ per cent in 1941-42. From May 1943, all assessees to this tax, have been obliged to make a compulsory deposit of $13\frac{1}{2}$ per cent of their excess profits with the Government. The Government have promised to add to this deposit an additional half of the amount. From 1st April 1944, the compulsory deposit has been raised to 19/64ths of the tax and the Government have announced that this fund would be made available for the purpose of post-war rehabilitation. The Excess Profits Tax is expected to yield, on the whole Rs. 110 crores for 1944-45 and Rs. 90 crores for 1945-46.

There is some difference between the E.P.T. in India and the E.P.T. in the United Kingdom. In the former country the rate is 100 per cent but 20 per cent would be refunded at the end of the war. In India $66\frac{2}{3}$ per cent is taken away as excess profits and other $13\frac{1}{3}$ per cent mulcted as super-tax and income-tax and most of the balance is taken away as compulsory deposits. The assessee in India, however, gets a return of $6\frac{2}{3}$ per cent as Government contribution and an interest of 2 per cent on his own contribution, both payable after the war.

The justification of the excess profits tax is that this is a recognised financial expedient in all belligerent countries. The ethics may be questioned so far as India is concerned, to a considerable extent at any rate, because this country was not consulted and strictly speaking has not been a party to the war on her own choice. Whatever may be the arguments, there are many and most of them sound, for taxing the wind-falls during the war-time, whether the whole or even most of it should be taken away as tax in a backward country like India is a moot point. What suits a highly industrialised capitalist country, does not suit an economically backward country and, human nature being what it is, certain amount of incentive by way of adequate profits must be left to businessmen and industrialists under the existing socio-economic order of such countries. In

India it is rightly claimed that the future industrialisation of the country has been largely jeopardised by the Government snatching away most of the war-time profits.

Income-tax: In the supplementary budget introduced in November 1940, a surcharge of 25 per cent was levied on all income, super and corporation taxes. In 1941-42 budget, the central surchage of 25 per cent on income and super taxes was raised to 33½ per cent. In 1942-43, the taxable minimum for income-tax purposes was brought down from Rs. 2,000 per annum to Rs. 1,500 per annum and the surcharge on income-tax was raised from 33⅓ per cent to a scale which ran from 6 pies in the rupee for incomes between Rs. 1,500 and Rs. 5,000 to 9 pies in the rupee for the next Rs. 5,000, 1 anna 2 pies for the next Rs. 5,000 and 1 anna 3 pies on the balance over Rs. 15,000. The surcharge on the rate of super-tax was increased to 50 per cent and the corporation tax was raised to 1½ annas in the rupee. In 1943-44, the surcharge on income-tax was raised on incomes above Rs. 5,000; the effect of the change was to impose a surcharge amounting uniformly to 66⅔ per cent on the basic rates of income-tax. As regards super-tax, the surchage was increased uniformly by 6 pies in the rupee on the slabs of incomes between Rs. 25,000 and Rs. 3½ lakhs. The resultant aggregate rates of super-tax, including surcharge, ran from 2 annas in the rupee on the lowest slab to 10½ annas on the top slab. Corporation tax was also raised by ½ anna to 2 annas in a rupee. In 1944-45, some relief was given to persons, whose income was below Rs. 2,000 by raising the taxable minimum from Rs. 1,500 to Rs. 2,000, but otherwise there was again an increase in taxation. On the slab from Rs. 10,000 to Rs. 15,000, the surcharge was raised by 2 pies from 16 to 18 pies over the basic rate of 24 pies; and on the balance above Rs 15,000, it was increased by 4 pies from 20 to 24

pies over the basic rate of 30 pies. The super-tax was further increased by ½ anna in respect of surcharge on slabs between Rs. 35,000 and Rs. 2 lakhs. Similiarly corporation tax was also increased from 2 annas to 3 annas; but a rebate of 1 anna in the rupee was given on so much of the company's total income as was not distributed in dividends other than dividends payable at fixed rates. In 1945-46 the surcharge on slabs of incomes above Rs. 15,000 was increased by 3 pies thereby providing for further yield of about Rs. 4 crores. For the first time, however, a provision has been made for discriminating between earned and unearned income. One-tenth of the earned income, subject to a maximum (in terms of income) of Rs. 2,000/- has been exempted from income-tax. With such crescendo of taxation, no wonder, receipts from taxes on income of all descriptions have simply soared. Income-tax and Corporation tax including surcharge but excluding excess profits tax are expected to yield Rs. 100 crores according to revised estimates for 1944-45 and a similar amount also for 1945-46 according to the Budget estimates.

The burden of income-tax during the war has pressed most heavily on lower incomes. It is widely held by economists that the minimum exemption limit of income should be put, at the present price level, at Rs. 6,000/-.

Indirect taxes during the war: It is not only the taxes on income that have been raised, taxes on commodities have also been steeply raised. In 1940-41, the excise duty on sugar was raised from Rs. 2 to Rs. 3 per cwt. The excise and import duties on motor spirits were raised from 10 annas to 12 annas per gallon. In 1941-42, the excise duty on matches was raised by cent per cent. Import duty on artificial silk, yarn and thread was raised from 3 annas to 5 annas per pound. A new excise duty of 10 per cent **ad valorem** on pneumatic tyres and tubes was introduced. In

1942-43, there was an imposition of surcharge of 20 per cent on the entire import duties. In 1943-44 a new excise duty on tobacco at such rates as to yield Rs. 10½ crores and excise duty on vegetable products known as vanaspati at Rs. 5/- per cwt. were levied. In 1944-45, the excise duty on tobacco was further increased so as to bring an additional Rs. 10 crores. Three new excise duties were levied, viz., on betelnuts, coffee and tea at 2 annas per pound. In 1945-46, the excise duty on the highest class of flue cured tobacco was further raised at varying rates so as to yield an additional revenue of Rs. 360 lakhs. Import duty on manufactuerd tobacco was also accordingly raised and is expected to yield Rs. 240 lakhs.

Taxes on Transport and Communications: The tale of taxation is not done. The transport and communication rates have already been raised systematically during the war. In 1940-41, the railway rates were raised by one anna in the rupee in regard to passenger fares and by two annas in the rupee in regard to goods traffic. A few commodities like foodgrains, fodder, manure, etc., as well as railway and military traffic were exempted from increase on goods rate. In 1942-43, postal and telegraph rates were increased. As compared with the pre-war year, the postage on inland covers has been increased from one anna to 1½ annas per tola and for every additional tola one anna is levied instead of half anna. For ordinary inland telegrams, the minimum rate has been raised from 9 annas to 13 annas and for express telegram from Re. 1-2 to Re. 1-10. The telephone rentals have been raised by 20 per cent with an additional surcharge of 50 per cent. There is a surcharge of 40 per cent on trunk calls also. The rates for book-posts and parcels have also been raised twice. The following figures of contributions to general revenues by railways, posts and telegraphs fully illustrate the accumulated result of the increased rates:

TAXES ON TRANSPORT AND COMMUNICATIONS IN INDIA

(Rs. in crores)

	Net contributions to general revenues from		Total
	Railways.	Posts and telegraphs.	
1938-39	1.4	....	1.4
1939-40	4.3	.9	5.2
1940-41	12.2	1.3	13.5
1941-42	20.2	3.4	23.6
1942-43	20.1	4.5	24.6
1943-44	37.6	9.0	46.6
1944-45 (revised) ..	32.0	9.3	41.3
1945-46 (budget) ..	32.0	11.9	43.9

The total contribution has risen from Rs. 1.4 crores in 1938-39 to as much as Rs. 46.6 crores in 1943-44 and for 1945-46 it is estimated at Rs. 43.9 crores.*

Burden of Taxation: The effectts of taxation on industry have already been discussed in our chapter on Industry. So far as the general public are concerned, the heavy growth in taxation, direct and indirect, as well as on transport and communications has resulted in great sufferings especially to the people with lower income. It may be argued that the increase in taxation is only in terms of money and does not represent an equivalent rise in the real burden of taxation. As we have already seen, along with the price level, the cost of living has also gone high. With prices ranging between 4 and 5 times the pre-war level and with heavy additional taxations super-imposed,

*The additional revenues from transport and communications no doubt are to some extent illusory, being largely book entries and transfer of money from one pocket of the Government into the other. Even after allowing for these, the increase in receipts must be very considerable and far above the pre-war income from the Departments.

the sufferings of the vast masses whose income could by no stretch of imagination be said to have risen by more than 50 per cent could be well imagined.

Following are the figures of the Government tax revenue in some important countries:—

TOTAL GOVERNMENT TAX REVENUE IN CERTAIN IMPORTANT COUNTRIES (1938-39 & 1944-45)*

(In millions of national currency units.)

Countries.	Units of currencies	Financial year.	Total Tax Revenue.
United Kingdom	(£)	1938-39	896
		1944-45 E	3,065
U. S. A.	($)	1938-39	5,480
		1944-45 E	43,591
Canada	($C)	1938-39	436
		1944-45 E	2,552
Australia	(£A.)	1938-39	74
		1944-45 E	319
New Zealand	(£NA)	1938-39	32
		1944-45 E	88
Union of South Africa	(£SA)	1938-39	33
		1944-45 E	92
Japan	(Yen)	1938-39	2,345
		1943-44 E	11,060
Argentine	(Peso)	1938-39	795
		1942-43	749
Brazil	(Milreis)	1938-39	2,466
		1942-43	3,348
Belgium	(Franc)	1938-39	9,670
		1944-45 E	15,050
France	(Franc)	1938-39	46,963
		1944-45 E	107,709
.. ..	(Krona)	1938-39	1,105
		1944-45 E	2,537

*From the monthly bulletins of the League of Nations.
E Estimates.

A perusal of these would give an idea of the tremendous war efforts of this country. The total tax revenue in the year 1944-45 was nearly $3\frac{1}{2}$ times of what it was in 1938-39 in the United Kingdom, $4\frac{1}{3}$ times in Australia. Between the same period, 3 times in South Africa, $2\frac{3}{4}$ times in New Zealand, $2\frac{1}{4}$ times in France, 5 times in Japan, 6 times in Canada and 8 times in the United States of America. During the same period, in India, tax revenue has been increased by four times. Only the United States of America, Canada and Japan have endured a burden more than India. India has suffered by way of taxation during the period proportionately more than the United Kingdom, New Zealand, South Africa and France. In the case of Canada, the United States of America and Australia, along with the increase in taxation, the national incomes have also risen, industrialisation has been speeded up even during the war years, and the people have come to be better off than what they were before the war.

Loans: Taxation in spite of all its merits has obvious limits and cannot be pursued to the logical end and it cannot foot the bill of any modern war. Borrowing is unavoidable and in fact necessary and essential in the balancing of any war finance. The Government of India realised this axiom somewhat late. In their latest budget, they realised taxation has reached its limit in India and borrowing has to be the sheet-anchor of India's war-time finances not only for securing funds for the war but also to encounter the forces of inflation. During the war years, the total deficit on revenue accounts has amounted to Rs. 477 crores. The total borrowings from the beginning of the war to the end of January 1945 aggregated Rs. 833 crores. Various types of loans have been floated to suit the needs of different investors, such as short-term, medium dated and long-term loans. Several efforts have been made to tap the resources of small investors. The following figures give relevant data concerning the Indian public debt:—

CLASSIFICATION OF INDIAN DEBT

(Rs. in Crores)

	1938-39	1944-45 (revised)	1945-46 (Budget)
Productive Debt	946.38	1,003.70	1,009.26
Ordinary Debt	229.08	533.26	650.30
Rupee Debt only	736.64	1,781.32	2,142.98
Sterling Debt only	469.12	67.15	63.60
Total Debt (including deposits) ..	1,205.76	1,848.47	2,206.58
Interest on Productive Debt ..	34.62	31.64	31.19
Interest on Ordinary Debt	11.12	19.61	30.95
Interest on rupee debt only ..	29.12	49.02	60.01
Interest on Sterling Debt only ..	16.62	2.23	2.13
Total interest	45.74	51.25	62.14

The total debt has risen just by about Rs. 1,000 crores between 1938-39 and 1945-46. Sterling debt has been reduced to less than $\frac{1}{7}$th while the rupee debt has increased by nearly three times. Of the total debt of Rs. 2,206.6 crores, Rs. 1,009.26 crores is productive debt and represents capital assets such as railways, posts and telegraphs, etc., and they pay their own interest charges. Ordinary debt, as such excluding deposits, national savings certificates, post office savings bank certificates, etc., amounted to Rs. 229.1 crores in 1938-39 and stands at Rs. 650.3 crores in 1945-46.

Inflation has very considerably financed the war: That such a terrible war, as the modern one, should have resulted in the ordinary debt of the country rising only to Rs. 650.3 crores has led economists into thinking that there is something in the Government accounting, which is not easily understood. Even after allowing the repatriation of sterling debt and gold sales, it would be impossible for the Government to meet the entire liabilities—their own and those of the Allied Governments which they have already taken up—by these loans. Following are the figures of the total war expenditure brought to India's books during the war years:—

DEFENCE EXPENDITURE

(In crores of rupees)

Year	Net Defence Expenditure	Capital Expenditures.	Total	Expenditure on behalf of U.K.
1938-39	46	....	46	....
1939-40	50	....	50	4
1940-41	74	....	74	53
1941-42	1,04	....	1,04	1,94
1942-43	2,15	53	2,68	3,03
1943-44	3,58	37	3,95	3,78
1944-45 (Revised) ..	3,97	59	4,56	4,39
1945-46 (Budget) ..	3,94	18	4,12	4,89

The total war expenditure from 1939-40 to 1944-45 brought to India's books amounts to Rs. 2,721 crores, of this India's share is Rs. 1,347 crores and the share of His Majesty's Government Rs. 1,374 crores. India has had to find funds for the revenue deficits of Rs. 477 crores for the same period. According to Prof. Vakil, "the financing of these huge amounts of expenditure, if properly shown in the budgets of the Government of India, would have revealed an unpalatable truth that they were carrying on with deficit finances of this expenditure to this extent with only parts of the requirements derived from loans and, therefore, by inflation of currency."* The heavy expenditure incurred by the Government of India for their own behalf and much more on behalf of the Allied countries for supplies and services rendered has in the main been financed by inflation.

We have already seen in the previous Chapter, how the note issue of the country has risen several folds. During the six years of the war the currency absorption in the country, notes, rupee coins and small coins amount to Rs. 1,116.34 crores, and that notwithstanding the repatriation of sterling debt, loans floated by the Government, gold sales, which have been put according to certain estimates at about Rs. 148 crores between 16th August 1943 and 30th April 1945.

*Financial Burden of the War on India, page 48.

Twenty Indian economists, among whom are Professors V. G. Kale, P. A. Wadia, K. T. Shah, C. N. Vakil, D. R. Gadgil, N. P. Niyogi and D. G. Karve, hold that "the Government seems to act as if it is enough for it to take care of its budget deficit while meeting the needs of the British Government by printing more notes......The net inflationary gap in India's finances, counting in the finance made on behalf of His Majesty's Government, is thus being wholly filled by the creation of more currency. The inflation in India is, therefore, a deficit induced fiat-money inflation. It is the most disastrous type of inflation."*

In the light of the above the total rupee expenditure of the Government of India may now be attempted and computed broadly and approximately during the six war years from 1939-40 to 1944-45, at Rs. 3,152 crores. The total net revenue for the 6 years amounts to Rs. 1,074 crores, the total rupee borrowings taking the difference between 1938-39 and 1944-45 figure of rupee indebtedness amount to Rs. 1,045 crores, sale of bullion, etc. at about Rs. 160 crores and inflation of currency at Rs. 1,116 crores. By adding these amounts and subtracting the Government cash balance on that date, the amount of expenditure is arrived at Rs. 3,152 crores.

If the loans floated by the Government of India have not been successful, they have only themselves to thank for. To repeat again, it is the unrepresentative character of the Government that has been largely the cause for the failure to raise more loans. The appeal to the small investor has proved a flop. The total items of small savings include savings bank deposits, defence savings bank deposits, defence savings certificates, cash certificates and national savings certificates. These came down from Rs. 141.5 crores in 1938-39 to Rs. 92.8 crores in 1942-43 and were Rs. 118.5 crores in 1943-44. The revised budget estimates for 1944-45 put it at Rs. 157.3 crores. The savings bank deposits stood at Rs 81.9 crores in 1938-39, came down to Rs 52.1 crores in

*Manifesto by Indian Economists issued on the 12th April 1943.

1941-42 to Rs. 52.2 crores in 1942-43 and even according to the revised estimates for 1944-45, they were only Rs. 79.7 crores. Cash certificates, which were at Rs 59.6 crores in 1938-39, stood at Rs. 34.6 crores in 1942-43 and Rs. 34.7 crores in 1943-44 and even the budget estimate for 1945-46 puts it only at Rs. 37.9 crores. What a contrast to the position in the United Kingdom where small investors could scrap to give in savings £500 million and more per annum.

In what proportion other belligerent countries obtained Funds: It is also interesting to note that in countries such as the United Kingdom, where the taxable capacity may not have been still reached, budgetary deficits are met more from borrowings than by taxes.

The method of financing the war is practically the same in all the belligerent countries. In most of them only about 50 per cent of the Governmental expenditure is met by revenue. Unfortunately, India suffers again, by comparison in this respect as well with that of the other belligerents as the following figures will show:—

Country and Year	Total Revenue	Defence Expenditure	Total Expenditure	Total Revenue as per cent. of total expenditure
		(Figures in millions)		%
U. S. A. 1944-45 Est. $ ..	40,800	88,200	98,000	41.6
U. K. 1945-46 Est. £	3,265	4,500	5,565	58.7
Canada 1944-45 Est. $ (Canadian)	2,702	4,450	6,000	45.0
Australia 1944-45 Est. £ (Australian)	325	505	653	49.8
S. Africa 1945-46 Est. £ (S. African)	123.5	82.5	189.0	65.3
India 1945-46 Est. Rs... ..	3,623	4,120	5,354	67.7

The percentage of total expenditure met out of revenue as could be seen from the above table is the largest in the case of India. The expenditure of the Allied Governments in India is not included in the figures for one thing. Again, India has the smallest margin over subsist-

ence amongst all those countries and that has naturally involved for greater real sacrifice than the financial figures show at the first glance.

Lend-Lease: The Lend-Lease receipts of goods and services from the U.S.A. to India total Rs. 515 crores since the commencement of the war. The estimated cost of the reciprocal aid, which India has had to foot, has been computed at Rs. 76.33 crores in 1944-45, Rs. 70.34 in 1945-46, and Rs. 35.11 crores in 1943-44. But much mystery still surrounds these Lend-Lease supplies. The public in this country have not been taken into confidence in regard to these complicated arrangements. There is no independent agreement in this connection between India and the United States of America. India has been linked with Great Britain for certain purposes in connection with the working of these arrangements. As Mr. K. C. Neogy stated in the Assembly on the 7th March, 1945, it is very difficult "to understand the exact method of working in this matter. to what extent we are under the control of His Majesty's Government in the matter of administration of these arrangements and to what extent we are in a position to deal independently with the United States of America.... We do not know whether there would be any definite settlement under which India would be expected to make contributions corresponding in terms of money value of the Lend-Lease, which we have been getting from the United States of America."

India's total War efforts: When any appraisal of India's war effort is done, it is to be clearly understood that India has trained and equipped not only the forces necessary for her defence or for services in India but also equipped and trained forces for overseas, supplied goods and services for the military and other requirements of His Majesty's Government. The fact that for the goods supplied and the services rendered to His Majesty's Government, the cost is borne by that Government, does not do away with the fact of the abnormal starin on our finances. The pay-

ment is not made in Indian currency by His Majesty's Government. The rupee finance of the war effort has been left to the Government of India and they have issued currency on the strength of sterling deposited in England. It is this complicated and unstraight-forward methods of meeting one's demand on the part of the Government of the United Kingdom that has led to considerable burden on Indian resources. The sterling deposited in England cannot be utilised for the purchase of goods for the duration of the war and it has been simply blocked up. The Government of India have been issuing currency mainly on the credit of the British Government.

The financial settlement and its effects: According to the settlement arrived at between His Majesty's Government of India in November 1939, it was stipulated that the defence budget of India was to consist of (1) her pre-war normal budget of effective charges of Rs. 36.77 crores, (2) an additional amount in adjustment of the normal budget for rise in prices, (3) the cost of such war measures as can be regarded purely Indian liabilities by reason of their having been undertaken by India in her own interest, and (4) a lump-sum contribution towards extra costs of maintenance of Indian external defence put at Rs. 1 crore. The vagueness of the financial settlement and the interpretations that have been made have made it difficult to assess the amount of the total liabilities that had to be incurred by India. When Japan came into fray and war extended to the East, the military expenditure also rose and simultaneously the question of revising the financial settlement so as to make India shoulder a larger share of the expenditure was raised. The theory of joint war measures has been evolved and it has been argued that some adjustments have to be made within the framework of existing settlement so that the share of each country may be determined. It was proposed in 1942-43 that this country should bear half the capital expenditure on certain measures financed, in the first instance, by His Majesty's Government, and should then take over all assets esta-

blished or to be established. The capital outlay for the construction of air-fields, etc., included in the 1943-44 programme, were, however, construed necessary for the defence of India and the whole of that capital outlay has been charged to India's account. It was then laid down that India should bear the entire burden of costs of all operations within her frontier and beyond her border. His Majesty's Government would shoulder the expenditure. The war expenditure, when the war against Japan was waged on the Indian soil, has had to be borne totally by the Indian Exchequer, while a few miles off the frontier, His Majesty's Government shoulder the responsibility! India being the bastion of the British Empire and the Allied Nations in the East, the major portion of the expenditure incurred in regard to war on Japan, must, by every canon of equity, be borne by His Majesty's Government and the Government of United States of America. The interpretation of the financial settlement is full of dangerous potentialities, has already worked unfavourably to India and may be worse in future.

Comparison with the World-war I: The magnitude of this war expenditure, to a certain extent, may be judged by the expenditure incurred by India during the World-war I. The actual defence expenditure in the World-war I of 1914-18 amounted to Rs. 222.7 crores. Including a free gift made by the Government of India to the British Exchequer, which amounted to Rs. 190 crores, and even with certain other adjustments, the total war expenditure came only to Rs. 550 crores. The expenditure incurred in 1942-43 on behalf of India alone, is much more than the entire expenditure between 1914-18 excluding the "free gift." The average of three present pre-war years of defence expenditure amounted to approximately Rs. 46 crores. Over and above this average would warrant, an excess of Rs. 1,220 crores has been incurred by this country during the war years 1939-40 to 1944-45 on behalf of India alone.

While neither the figures of absolute totals of incomes nor revenue nor war expenditure in other countries are

really any good guides, to judge the sacrifices made by India in this war, they still offer some help in understanding how in spite of India being very ill-equipped and how in spite of her low national income and lack of economic stamina, she has incurred expenditure and undertaken sacrifices, which puts her on a favourable footing with many of the advanced industrial countries of the modern world.

Belittling of India's war efforts and sacrifices: In order to minimise India's contribution to the war, over-emphasise the British liabilities and with a view to modify the financial settlement as well as whittle down the sterling assets accumulated at London, efforts have been made during recent years to prove that India has been let off lightly during the war. The City Editor of the "Manchester Guardian" in the middle of 1943 stated that "on balance India has become a creditor of England not through normal process of trade and investment but through negotiated division of defence cost. The Indian Government drove a very hard bargain with the British Treasury only justifiable by regarding India as a semi-neutral." Complaining about the inequitable character of the agreement under changed circumstances, the "Economist"* stated that "India only pays for the cost of air-fields constructed in India if they are regarded as necessary for the local defence of the country. The Asia Command and those which are used by British forces are not provided for in the Indian budget estimates. This repatriation of financial costs—the true costs are in any case borne currently by India—was agreed upon before Japan entered the war and before the scale of military operations in and around India could possibly have been foreseen. The financial agreements can hardly have contemplated a situation whereby the expenditure of the British Government alone in India would very considerably exceed the total Indian Government Budget." In 1944, the speech of Lord Keynes in the House of Lords was such as to give an impression

*Issue of 25-3-1944.

that the sterling balances may after all be repudiated at least partially. The 'Economist' also wrote in the issue of June 17, 1944, that "the accumulation of sterling assets by India has, therefore, been considerably accumulated by the rise in rupee prices......if only on this comparison of the real terms of trade between two countries, there could seem to be strong grounds not merely for a negotiation of the settlement but for some retrospective consideration of the debt to which it has given rise." Dr. Paul Einzig in the 'Banker' of December 1944, wrote that "the fairy princess of White Hall has generously rewarded the poor nations of the East endowing them with undreamt of riches overnight leaving a treasure of £50 million in Baghdad, £100 million in Jerusalem, £200 million in Cairo and £1,000 million in New Delhi and so forth." The 'Manchester Guardian' has also styled the financial settlement as a 'fantastic contract." The 'Financial News' has dubbed the sterling balances as "the amount spent to save India from becoming a 'Japanese Colony." The 'Economist' again blurted out in anger that "the bigger the claim the smaller the chances of consenting it." All these campaigns were during the middle of last year when the Indian Finance Member was in London for consulations.

Has the U.K. been fleeced by India?: The magnitude of India's war efforts and sacrifices and how she compares favourably with many belligerent countries has already been referred to. So far as the inflated prices paid for goods supplied is concerned, the fourth Report of Parliamentary Committee on British Expenditure in India, published in May 1945, has finally scotched it. The Parliamentary Committee's judgment, which must be the judgment of His Majesty's Government also, is that "taking all circumstances into consideration, fair prices have on the whole been secured for vast stores and for food bought by this country." We are further told that "the figures giving comparative prices in India and here for a wide range of stores, including textiles, general stores and mu-

nitions, show that Indian prices are seldom higher **and are generally below home prices.** Usually higher prices occur where articles are not those which Indian factories were accustomed to manufacture." The British Government have been able to obtain iron and steel, cloth and many other commodities well below the prices available to civilian consumers in India, according to the same Parliamentary Committee Report. Instead of England being overcharged, it is India that has been systematically underpaid, her goods bought at unfavourable rates and what is worse even that amount of money is not at her disposal. It is the purchaser, who has made such a hard bargain, that has command over the purchase money and the seller does not know how and when she is going to get even that money.

CHAPTER EIGHT

SOME POST-WAR PROBLEMS

Aftermath of the war: The war being over, its after effects on the Indian economy would be soon felt in many forms in various directions. There would be now onwards unemployment galore.* In the defence forces alone there have been more than two million people. All told, probably a safe estimate would be that about ten million people have had direct employment of some sort or the other as a result of the war. Even after giving allowance for the maintenance of the army at more than the pre-war level and the nucleus for the air and naval forces and new departments of the Government, it is sure to be found that a majority of these people would not be in possession of their war-time employment.

The Government would also discontinue the huge orders which they have been placing with the various Indian industries. That would create unemployment among the industrial and other employees and cause dislocation in industry and trade. India has not emerged out of the war any appreciable improvement in her industrial or economic structure. There is, therefore, no offsetting influence at present. The future of our foreign trade, its direction and position is uncertain. On the other hand, at least for a few years to come there would be no relief from taxation. On the whole, unless the Government and the people take effective comprehensive and co-ordinated measures all over the country, from now, not only the war-time boom would disappear, a severe depression may set in with still more trouble and sufferings to our people.

At the same time, no hasty or ill-advised steps should be taken. So far as agriculture is concerned, we have indicated briefly as to what is immediately as well as from long-term point of view necessary.

*This book was written within a few weeks of the end of the War.

Stabilisation of agricultural prices: The Government have been considering for a few months past, the question of stabilising agricultural prices. The Post-war Reconstruction Committee of the Government of India have set up a few months back a special Sub-Committee to consider the ways and means of bringing about stabilisation of agricultural prices. The Committee have been asked to consider "(1) the principles on which producers' prices of agricultural produce, whether crops grown for industrial purposes or for food, or the produce for animal husbandry of all descriptions, should be fixed, and (2) the means by which such prices can be made effective and an assured market provided." The Committee are also to consider what steps the Government should take if the existing controls should continue in force after the war is over and alternately in case they should be relaxed or abolished.

The Committee should grasp the fundamental principle that the problem of agricultural prices is not something of a water-tight compartment but is a part and parcel of the general price level. It would be ridiculous to attempt to solve or stabilise agricultural prices without reference to general prices. The primary question as to what should be the minimum price that should be guaranteed is a difficult one. As suggested by Sir M. Nanavati, facts and figures concerning agriculture, its cost, cost of living of the agriculturists, etc., may first be collected. Without the preparation of indices of agricultural cost and cost of living, it is not possible to advise ways and means of deciding what should be the minimum prices.

It is to be hoped that the Government would understand that a very efficient and appropriate advisory machinery at the Centre is necessary with wide powers to compel the Provinces and the States to carry out its policy. Otherwise no stabilisation of agricultural prices could be carried out successfully. The Government of India also would have to incur considerable expenditure on such a machinery. At present the expenditure of the Government

of India per individual of the population is a very low figure as compared with what is being spent in other countries. The expenditure in the United States of America per thousand of population on agriculture amounts to Rs. 1,020, in the United Kingdom it comes to Rs. 960/-, in Germany and Italy it used to be Rs. 945/- and Rs. 225/- respectively. In India the expenditure by the Central Government per one thousand of the population amounts to only Rs. 35/-.

Stabilisation of agricultural prices is a stupendous task and it is to be hoped that the Government of India would not embark on any ill-advised or ill-conceived scheme. Firstly they must set up an appropriate machinery. Secondly, they must be prepared to spend considerable amount. Thirdly, the Government must possess sufficient powers to enforce their decision on the Provinces and, if possible, on the States. Fourthly, stabilisation, they should see, is achieved not only so far as time factor is concerned but also throughout the length and breadth of the country. The spectacle of foodgrains being cheap at one place and rising to great heights in another resulting in people dying of starvation as it was in 1943-44 should be avoided. To do this, the Central Government should possess the requisite administrative machinery and full control over the surplus stocks of agricultural produce and in addition possess a definite policy towards equitable distribution of the entire stock in the country. None of these methods would in the final account mean much unless and until the production is increased in an efficient economic manner, fertilisers are made available, irrigation facilities expanded, cultivators put in possession of better seeds and implements and the present evils of deforestation and soil-erosion and above all sub-division and fragmentation are eradicated.

Stabilisation of general prices: Stabilisation of general prices again is going to prove a very difficult question. At what level of prices should we stabilise? While the war-time prices have been abnormally high, the pre-war prices,

especially, in regard to agricultural products, were low. In this connection, we have to mention that, while some amount of deflation could not be avoided, any wholesale or sudden deflation is bound to produce enormous handicaps and upset the economic equilibrium. In whatever manner or quantity the currency is contracted, it should be contracted gradually and the Government cannot by any chance think of going back to the pre-war currency circulation. What should be the amount of currency in the country and at what level general prices should be stabilised, should be carefully examined by a Committee to be set up immediately by the Government. In order to avoid speculation and other unhealthy tendencies, the Committee should conduct its studies **in camera** expeditiously and only the report and the action taken thereon by the Government should be made public. The Committee should be represented by prominent businessmen, publicmen, legislators and others.

The Future of "Controls": One of the problems that would be now facing Government and the people is the continuance of war-time controls on Indian trade and industries. Quite a considerable section of the Indian commercial community are of opinion that the different kinds of controls have stifled and frustrated private enterprises and their continuance after the war would shake the confidence of the public and prevent rapid industrialisation of the country. It is a moot point whether the controls could be or ought to be abolished forthwith. In no belligerent country could it be done. In spite of all their drawbacks, they would have to be modified and adapted to the prevailing conditions and gradually abolished in the course of about one to two years.

Help should be given to the industries started during the war: Bound up with the same question, directly or indirectly, is the question of the encouragement of the industries started during the war. Government gave an assurance that they would make it possible for such of

these industries as were established for helping the war efforts to exist and develop after the war is over. The Government in a Pressnote on the 13th August, 1945 have reassured producers and manufacturers that, so long as the various controls remain in force, they would endeavour to give assistance for the production of civil supplies in the same way as previously of war supplies, by provisioning and allocating essential materials, such as coal, steel, cement and timber, procuring capital equipment and tools, obtaining transport priority, etc. Government have also instructed the Directorates in the Department of Supply that such assistance must continue, for the restoration of industry, its conversion from war to peace, and for its expansion. For the procurement of stores to meet post-war Government requirements, the policy of Government, we have been informed, is to make the greatest possible use of indigenous production, and particularly of those industries which have, under the influence of war needs, achieved production conforming to acceptable standards and specifications. These are indeed proper steps and are in right direction. But they are not adequate. A categorical assurance must be given that the several industries started during the war would be encouraged and protected even after the withdrawal of the "controls."

The purchase policy of the Government would, to a considerable extent, influence not only the development of the existing industries but also the ones to be started. From now, the orders placed by the Supply Department and such other orders for the prosecution of the war would dwindle and finally cease. The "Eastern Economist" states in this connection that "the primary aim of policy in the post-war transition would be to stimulate private enterprise so as to enable it to fill the gap to be caused by the decline in public war expenditure......The first step is the setting up of a central purchase organisation and of a development Committee, under the Planning Department,

as suggested by the Deputy Purchase Chief in the Supply Department."*

By a sympathetic, bold purchase policy and the reorientation of the tariff policy, considerable encouragement could be given to the industries. The theory of discriminating protection is dead as dodo. Instead of the present Tariff Board, something like a Planning Commission which would be a permanent body is necessary.

The Sections on Discrimination should be deleted: One of the blots in the Indian Statutes are the provisions in respect of discriminations—Sections 111-121 of the Government of India Act, 1935. Under these clauses, foreign enterprises have and would always enter Indian industrial fields and entrench themselves. We have very bad precedents in this connection. Lever Bros., the Swedish Match Company, Imperial Chemical Industries are some of the well-known instances. A resolution was passed in the Assembly in the Budget Session of 1945 recommending the removal of these Sections. That resolution is very timely. From the information that is leaking, it appears that fresh British ventures are likely to be started in India to the detriment or retardation of Indian industrial progress. One such scheme was mentioned by Sir William Barton recently. He is stated to have in mind a scheme of £300 million development programme for South Indian States. While we have no quarrel and, in fact, welcome industrialisation of the States, the object of Sir William Barton appears to be crippling of industrialisation in British India. He is reported to have mentioned that some leading Indian States do not subscribe whole-heartedly to the economic nationalisation of the Indian business world and the "States generally will look to Britain for supply of the equipment and technique they will need in carrying out their industrial programme and they would be reluctant to conclude with British India an agreement that might in any way impede British co-operation." We do not know how many such schemes have already been hatched.

* July 6, 1945.

The Non-official plans: This war has demonstrated to the people and we believe also to the Government the necessity for adopting well-thought out, systematic and comprehensive schemes if the Indian economy is to improve and progress. The people and the Government have become plan-conscious. There are a number of plans but the three non-official plans that hold the field are the Bombay Plan, the Roy or People's Plan and the Gandhian Plan. The Bombay Plan of Post-war Economic Development of India envisages a period of 15 years in three successive stages of five years. After making allowance for the increase of population, it is proposed under the Plan to double the *per capita* income. It is estimated to cost Rs. 10,000 crores based on 1931-39 average price level. The amount is to be distributed approximately as follows:—

	Rs. (in crores)
Industry	4,480
Agriculture	1,240
Communications	940
Education	490
Health	450
Housing	2,200
Miscellaneous	200
Total.	10,000

If the Plan is successfully to be carried out, according to the authors, it would result in the following increments in the net income:—

	Net income 1931-32	Net income expected after 15 years.	Percentage increase.
		(In crores of rupees)	
Industry	374	2,240	500
Agriculture	1,166	2,670	130
Services	484	1,450	200

The finances for carrying out the Plan are to be found as follows:—

External Finance.	Rs. (in crores)	
Hoarded wealth	300	
Sterling securities held by Reserve Bank of India	1,000	
Favourable Balance of Trade	600	
Foreign Borrowing	700	
		2,600
Internal Finance		
Savings	4,000	
' Created Money ' *i.e.* borrowing against *ad hoc* securities from the Reserve Bank of India	3,400	
		7,400
Total ..		10,000

While the Bombay Plan is undoubtedly ambitious, the targets aimed and the pace of industrialisation are lesser and slower than those aimed at and achieved under the Russian Plans. The Bombay planners proposed to provide for every person in the country a balance diet, which would afford 2,800 calories per day, 100 square feet of living room and 30 yards of cloth per year. Every village in the country is to have a primary school, a doctor and two nurses. They also provide for an increase of 50 per cent of the existing railways mileage and development of a number of small harbours. Among the industries, which they propose should be developed fully are power, mining and metallurgical, engineering, armaments, transport, chemicals, cement, textiles, glass, paper, leather goods, etc.

The planners have tackled the question of distribution in the Part II published early in the year. On their assumptions, the carrying out of the Plan would result in the following distribution of working population in 1962, the year following the completion of the Plan:—

OCCUPATION DISTRIBUTION IN 1931-1932

	1931		1962	
	Millions	per cent.	Millions	Per cent.
Agriculture	106.3	72	129.7	58
Industry	22.1	15	57.9	26
Services	19.2	13	34.7	16
Total working population	147.6	100	222.3	100
Total population ..	338.1	....	494.0	....

They expect that following would be the average income per occupied person:—

AVERAGE INCOME PER OCCUPIED PERSON

	1931	1962	Increase percent
Agriculture	114	220	93
Industry	161	368	129
Services	264	397	50

The first part commits the planners to a rigorous system of control measures and the second part to great inroads in private capitalism. One of the essential postulates of these planners is a national Government at the Centre. It is the Bombay Planners that have brought down planning from the ethereal realms to the field of mundane practical politics. In spite of a few defects, it is the best in the field.

The People's Plan, known also as the Roy Plan, prepared by the Post-war Reconstruction Committee of the Indian Federation of Labour, is totally anti-capitalistic. This Plan proposes an investment of Rs. 15,000 crores over a period of ten years. The Plan emphasises that production should be for consumption and pleads for compulsory nationalisation of land and mines, liquidation of agricultural debt, and organisation of producers' and consumers' co-operatives. The People's Plan proposes to achieve in 10 years a 600 per cent increase in industrial production and 400 per cent rise in agricultural production. The standard of living of the masses according to this Plan, on its frutification, would rise by 300 per cent excluding "services such as health, education and housing, which would be provided free"— Rs. 15,000 crores is to be allocated in ten years as follows:—

	Rs. (in crores)
Industry	5,600
Housing	3,150
Agriculture ..	2,950
Communications ..	1,500
Education	1,040
Health	760
Total ..	15,000

The stress laid on agriculture and the demand for control of profit motive in the interest of the country at large are the good points of the "People's Plan."

Professor S. N. Agarwal, Principal of the Wardha College of Commerce, has drawn a plan styled as the "Gandhian Plan of Economic Development for India." It is based very largely on Gandhian ideals and it has been commented on favourably by Mahatma Gandhi. The merit of this study are the emphasis it lays on the villages, rural industries and rural uplift.

The Government Plans: Ever since the establishment of a separate Planning Department, the Government of India have also been "planning." The primary railway plan, known as the Basic Plan, stipulates the construction of 5,000 miles of new lines at a cost of Rs. 100 crores, spread over 10 years. The object is to bring all important centres within 25 miles from the railway. The plan is said to be now well advanced and involves a total capital expenditure of Rs. 319 crores. It is proposed to allocate the amount as follows:

	Rs. (in crores)
Rehabilitation ..	125
Development ..	45
Passenger Amenities	45
Construction of new lines	56
Staff welfare ..	48

The Railway Plan also proposes to establish the manufacture of locomotives in India.

Under the Road Plan of the Government of India, a scheme of development in ten years is proposed. In addition to national highways, a net work of provincial, district and village roads are to be made. The villages are to be knit with one another, in such a manner that in thickly populated areas, no village would be more than two miles away from the nearest district road. The motor transport is to be taken to the very core of the countryside, and it is proposed to have 400,000 miles of roadways by the time the Plan is completed. The Road plan is estimated to cost Rs. 450 crores.

The Government of India's Plan for agriculture involves an amount of Rs. 2,513 crores. There is also a Civil Aviation Plan expected to cost Rs. 23 crores.

Early this year, the Government set up 29 panels consisting of industrialists, businessmen and Government officials. The panels were required to start working immediately and a general directive was issued to each panel to report on the scope and extent of the development whether the industry should be State-owned either on grounds of national interest or because private capital is unlikely to take it up; the capital required for development, the extent to which technical advice from abroad may be necessary; the manner and the degree of co-operation with foreign firms both as regards capital and management; the location of the industry; the nature of assistance required from the Government in the form of protective duties, bounties, research grant, expert advice, etc.; the control that the Government should exercise in the case of private ownership; whether the industry should cater for the export market and whether it should develop, as in Japan, on the cottage industry basis, and, if so, to what exent. Each Panel has also been given the task of estimating the target to be aimed at in the first post-war five years' period and wherever possible the target to be reached within fifteen years.

Not only the Government of India but the Provincial Governments have also become plan minded. A number of provinces have drawn up skeleton schemes of provincial planning. Following are the figures of capital required for a period of five years by the various Provincial plans so far formulated:—

(In crores of rupees)

	Capital	Recurring	Total
Bombay	39	7	46
Madras	87	49	136
Bihar	100	19	119
United Provinces ..	87	27	114
C. P. and Berar ..	21	9	30
Sind	35	10	45

The future industrial policy of the Government: A Press communique issued by the Planning and Development on April 21, 1945, lays down the Government of India's Industrial Policy. The fundamental objectives of

industrialisation, according to Government, are three-fold: (1) increase in national wealth by the fullest and most effective utilisation of the resources of the country, (2) to make the country better prepared for defence and (3) to provide a high stable level of employment. The direct methods, by which Government propose to industrialise the country rapidly, are assistance to be given to industry in the form of financial assistance, subscription to share capital and in special cases guaranteeing of minimum dividends of capital. Industries receiving the various kinds of assistance include all basic industries and are subjected to various forms and degrees of Government controls. The indirect assistance, which the Government propose to render for a quick industrialisation are development of transport and power as speedily as possible.

If the Government proposals are adopted, we would be having a regular gradation in regard to private and State management. Firstly there would be some industries financed and run wholly by private interests, secondly some financed partly by the State and partly by private interests, thirdly industries owned both by the State and by private interests, fourthly industries owned and managed by the State.

The Government propose to centralise twenty industries including iron and steel, aircraft, automobiles, shipbuilding, sugar, paper, textiles, cement, rubber, electric power, coal and radio engineering. They state that before coming to a final decision in regard to these industries, they would consult the Provinces and the leading Indian States. It is now stated categorically that the *laissez faire* policy of Government would be given up and they would encourage and promote rapid industrialisation of the country to the fullest possible extent and that the State in future would take part in industrial enterprises in respect of a number of basic industries and industries left to private control would be subjected to varying degrees of control. They propose to institute a system of licensing in order to prevent over-concentration of industries in particular areas

and also arrange the dispersion of industries in such a manner as to make it impossible for any community to have a preponderating interest.

The industrial policy as adopted by the Government is defective in many respects. The system of licensing especially is open to grave abuse. The parallel owning by the State and private enterprise is rather unfair to the private capitalists. The latter have neither the influence nor the resources possessed by the State. The plea advanced by the Government that it is necessary to run certain industries for the purpose of revenue is rather queer. Whenever a State feels incumbent to enter the industrial field, it has always been on the larger issue of service to the people as such or the vital necessity of the Industry for the very existence of the country.

The lack of provisions for the prevention of inflow and domination of foreign capital, in the Government statement, is another great defect. It is quite likely that foreign industrialists will take advantage of the Government proposals to start industries in India on some sort of nominal partnership with Indians making India's helotage in economic matters quite secure. The commercial safeguards in the Government of India Act, 1935, amply encourage this tendency. It is because of this that Mr. M. A. Master, President, Indian Merchants' Chamber, Bombay, commented recently that "India would prefer to go without industrial development rather than allow creation of new East India Companies in this country, which would not only militate against her economic independence, but would also effectively prevent her from acquiring her political freedom."

Probably the most objectionable part of the policy is one of the objects, which seeks "to ensure the unhealthy concentration of assets in the hands of a few persons or of a special community would be avoided. This may be secured by judicious exercise of controls, such as Capital Issue Control and the licensing machinery for the regionalisation of industries." Mr. C. Rajagopalachariar, the ex-

Premier of Madras, has appropriately summed up the defects of Government industrial policy in the following words:

> "All forms of control and interference that are adumbrated in the Government communique are devised only to increase bureaucratic power in the conferment of opportunities for profit-making. It is not a half-way house but a fraud and a snare. The most significant part of the communique on which public attention should be frankly brought to bear is the Government's observations on the unhealthy concentration of assets in the hands of few persons or a special community. Reference is made to minorities and backward communities as if industry also should or could be hitched to sentimentality. It is a mere bait to catch political fish. The communal virus has attacked the Legislature, the Civil Services and admission to educational institutions. It threatens to infect the judiciary and the Defence services. If the Government of India should succeed in introducing the poison into trade and commerce and the industrial effect of the country, the disaster would be complete."

National Government is essential: For any successful carrying out of economic plans, in the interests of the country as a whole, a strong national Government is essential.* The sponsors of the Bombay Plan made the fundamental stipulation that a national Government at the Centre was necessary for any successful carrying out of the Plan. The dangers, real and potential in the Government plan, amply illustrate the wisdom of the Bombay Planners in their first and fundamental stipulation.

*Sir Archibald Rowlands, the present Finance Member, himself admitted to a representative of the "Hindustan Times," a couple of months back in July 1945, that "if the Viceroy's Executive Council consisted of members commanding the general support of the legislature and the country, their task of dealing with the difficult and complex problems that lie ahead would obviously be easier than that of a Government lacking such support." He is also reported to have further stated that "a Government formed by such representative Indians would doubtless find the legislature co-operating with them with constructive criticism. Such a Government could, among other things, have a bold plan for development loans, push the movement for small savings and make the people pay, and not evade the taxes."